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WORLD NEWS

South Africa calls in Kroll to help police tackle crime and corruption

South Africa has called in Kroll Associates, the international business investigation and risk management agency, to help train its police and military intelligence agents in how to tackle the organised crime and corruption that is worrying foreign governments and investors. **Page 16**

Moslem suspects rounded up
French police detained some 50 suspected Moslem fundamentalists just two weeks before France hosts the World Cup soccer tournament. **Page 2**

Habibie pushes reforms
International Monetary Fund officials returned to Jakarta as President B. J. Habibie accelerated his push for political reform by lifting a ban on labour unions and telling activist leaders he was prepared to call general elections within months. **Page 4**

EU accuses Israel of obstruction
The European Commission said it was no longer possible to have a dialogue with Israel because Benjamin Netanyahu, the prime minister, was hindering regional economic co-operation. **Page 7**

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The US Supreme Court ruled in favour of New Jersey in its claim against New York for large parts of Ellis Island, the historic gateway of immigration. **Page 6**

Georgian fighting dies down
The worst fighting between Georgian armed groups and separatist Abkhaz rebels in more than five years calmed, hours after the two sides reached a ceasefire overnight. **Page 3**

Turkey may lift talks boycott
Turkey said it was prepared to lift its boycott of talks with the European Union if an EU summit next month eased conditions for Ankara's future membership. **Page 2**

Poll boost for Christian Democrats
Italy's former Christian Democrat parties did better than expected in local elections, raising the possibility of a re-emergence of the centre in Italian politics. **Page 3; Focus on south, page 2**

Court battle may help Windows
Analysts said the US Justice Department's battle against Microsoft has boosted consumer interest in Windows 98 and may even increase initial sales. **Page 6**

Polish unions win concessions
Trade unions have won concessions from the Polish government on a plan for the loss-making coal industry that envisaged cutting cut jobs by more than half and returning it to profitability. **Page 2**

Danes vote on enlargement
Denmark goes to the polls tomorrow to approve or reject the Amsterdam treaty that prepares the way for former eastern bloc countries to join the European Union. **Page 3**

Candidate to pledge reforms
Former beauty queen Irene Saez, a leading candidate for December's presidential elections in Venezuela, plans to promise a sweeping reform of the country's bloated state apparatus. **Page 7**

Burma to allow opposition rally
Burma's military government said it would allow the opposition National League for Democracy to hold a gathering this week to mark its unrecognised 1990 election victory.

BUSINESS NEWS

Auction for Russian oil group Rosneft closes with no bidders announced

Moscow failed to announce a list of bidders for a majority stake in Rosneft, the largest unsold oil company, when bidding ended yesterday. Russian news agencies reported that the flotation failed to attract any bidders. **Page 16**

Liffe, the London International Financial Futures and Options Exchange, has brought forward the introduction of electronic trading by six months to June 1999. In Karachi, meanwhile, the stock exchange was forced to shut when traders rioted in protest at the arrival of computerised trading. **Liffe, Page 16; A fair trade, Page 14; Lex, Page 20**

Kirch and Bertelsmann, the German media groups, made a last-minute attempt to save their planned digital pay-TV joint venture from a veto by the European Commission. **Page 2; Editorial Comment, Page 15**

The European Commission said its decision on whether to authorise the $37bn merger between MCI and WorldCom would be announced in conjunction with clearance by US anti-trust regulators. **Page 19**

Pertamina, Indonesia's state-owned oil company, is to have its exclusive marketing arrangements reviewed by the new government. Foreign companies welcomed the move. **Page 17**

MAN Nutzfahrzeuge, the German commercial vehicles group subject to takeover speculation, vowed to retain its independence in spite of the consolidation sweeping the industry. **Page 20**

Seagram's chief executive, Edgar Bronfman Jr, will fly into London today to meet PolyGram president Alain Lévy to discuss whether he will stay following Seagram's $10.6bn takeover. **Page 20**

Usinor, French steel group, is to buy stakes in two Brazilian steel makers in the first significant foreign entry to Brazil's steel industry since its privatisation. **Page 17**

Decaux, French bus shelter and billboard group, may try to top a £475m ($793m) offer from US media group Clear Channel for More Group. **Page 17**

Koç Holding, Turkey's biggest family-controlled conglomerate, is to launch what it describes as the country's largest private sector share offering. **Page 20**

Japan's Securities and Surveillance Commission accused HSBC Securities and ING Barings of conducting illegal securities trading in their Tokyo branches. **Page 4**

Volkswagen chairman Ferdinand Piëch is determined his group can overcome any obstacles to the purchase of Rolls-Royce Motor Cars raised by BMW. **Page 17**

Fiat, the Italian carmaker, plans to spin off its controlling stake in Snia BPD, the fibres, chemicals and biomedical company. **Page 21**

Mazda, the Japanese group 33 per cent owned by Ford, forecast no sales growth in any big automotive market this year. **Page 18**

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
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ABN Amro tops Fortis' agreed offer for Générale

Dutch group's $12.4bn bid would create Europe's top commercial bank network

By Gordon Cramb in Amsterdam and Neil Buckley in Brussels

ABN Amro yesterday trumped a rival's agreed bid for Belgium's Générale de Banque, raising the possibility of a battle for control of the country's biggest bank.

The Dutch bank's Fl 24.5bn ($12.4bn) offer tops a bid made last week by Fortis, the Belgian-Dutch insurance and banking group. It marks an escalation in cross-border merger activity ahead of the introduction of the European single currency. A combined ABN Amro and Générale would create Europe's biggest commercial banking network.

Jan Kalff, ABN Amro chairman, said: "Merger mania is now under way." Predicting further cross-border deals and consolidation in countries such as France and Germany, he added that banks with smaller home markets had the most need to reach critical mass.

ABN Amro and Générale together have assets of Fl 1,159bn, ahead of all but the very largest of their European competitors, such as Switzerland's post-merger UBS.

But their reach within Europe would be unmatched, the Dutch group said. As well as an aggregate 5.5m retail customers and more than 2,000 branches in domestic markets, they would have a comprehensive presence in the other countries.

A successful bid by ABN Amro would deprive Belgium of the "Grande Banque Belge" the government has pushed for, and thought it had got last week through a link-up of Générale and Fortis.

Philippe Maystadt, finance minister, said yesterday the government was anxious that Générale's decision-making centre remain in Belgium, but stressed it had no power to intervene. ABN Amro said all the combined group's commercial banking operations in the 15 European Union countries plus Switzerland would be based in Brussels.

Analysts suggested Fortis might launch a higher bid. The financial services group said it was "studying the offer made by ABN Amro, over how we should react and when." It was meeting its advisers last night.

"There is much more at stake for Fortis than for ABN Amro," one analyst said. "This is the last chance to do a mega-deal in Belgium." Fortis may make its intentions clear today at the scheduled annual general meetings of its Belgian and Dutch arms, where it will release first-quarter results.

Générale directors meet today to discuss the Fortis offer, which it has backed in principle, and ABN Amro's bid. The latter may be welcomed by the bank's six-strong management committee – part of the 28-member supervisory board – which was unhappy with the Fortis deal.

Mr Kalff said: "If we did not have the feeling the management committee was supporting us, we would not have made a bid."

It may get a less warm welcome from representatives of Société Générale de Belgique, Belgium's biggest holding company, and two investment groups, which together have almost 33 per cent of Générale de Banque.

Générale unit faces sale, Page 21
Lex, Page 16
Observer, Page 15

Beijing's foreign policy now 'free from ideology'

By James Kynge in Beijing

China's Communist party claims it has dropped all ideology from the conduct of foreign relations and is ready to establish ties with the Democratic and the Republican parties of the US.

Dai Bingguo, head of the international department of the Central Committee of the Chinese Communist party, said in an interview that the party would not "fuss" about the ideology or social systems that foreign political parties represent.

"We believe that ideologies and values should not become obstacles to the exchanges between political parties," said Mr Dai, who holds ministerial rank.

His was the first interview granted to an English-language newspaper by the Communist party's international department, which drives China's foreign policy.

US president Bill Clinton, who is due to hold a summit with Jiang Zemin, China's president, in Beijing next month, yesterday resisted calls from Republicans to delay the trip because of allegations that Chinese officials made contributions to Democratic party fund-raising in 1996.

Foreign diplomats and Chinese commentators said that contacts with the two large US parties would help China to build trust and counter the sense of suspicion felt by critics on Capitol Hill towards Beijing.

China's Communist party has, in several respects, already abandoned adherence to its founding ideology. Its leaders preside over an economy that is directed mainly by the free market. Even the theoretical supremacy of the party is being eroded by the gradual implementation of the rule of law.

Asked if the party wanted to establish formal ties with the Democratic and Republican parties in the US, Mr Dai said: "The Communist party of China is willing . . . to establish and develop relations with political parties in all countries, with no exception, that are ready to have contacts with our party."

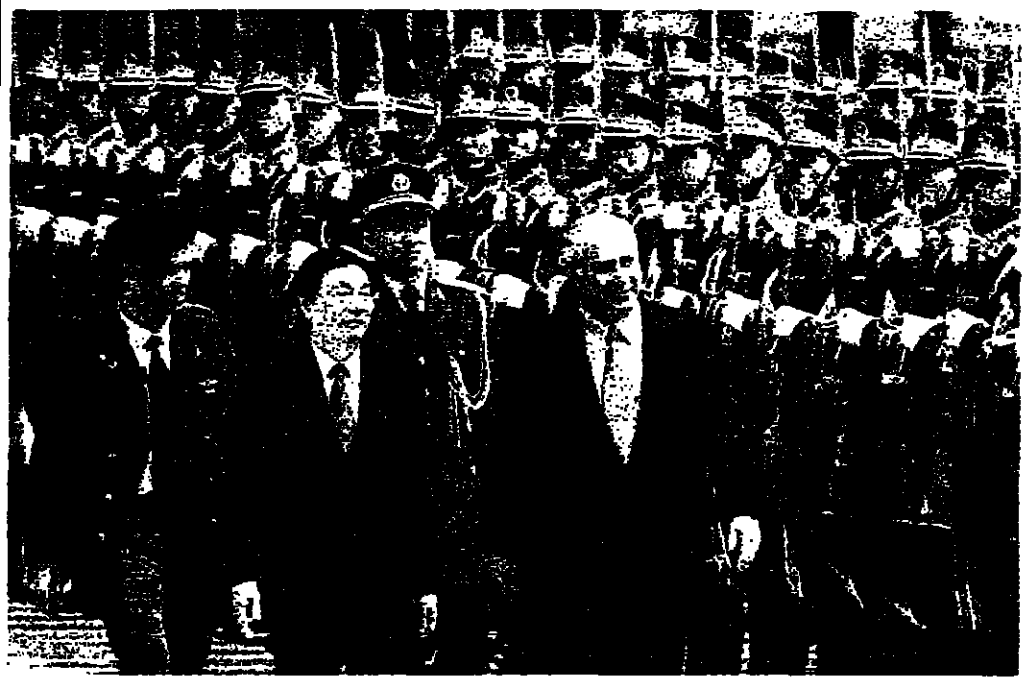
Party-to-party contacts, which can be conducted with a lower profile than state relations, could help China defuse some problems before they break into the public domain and limit the damage caused by public disagreements, diplomats said.

China has been the target of annual criticism in Washington over its human rights record, its rule in Tibet, alleged religious repression, trade disputes and several other issues.

Current ill-will over allegations that Loral, a US satellite company, supplied sensitive missile guidance technology to China threatens to cloud Mr Clinton's visit.

Improved relationships with the two main US parties may also strengthen Beijing's hand in its tussle to sideline a slick Taiwanese public relations apparatus in Washington, diplomats said.

Netanyahu faces global pressure over Palestinians



Zhu Rongji, China's prime minister (second from left), told Benjamin Netanyahu (right), his Israeli counterpart, of his country's support for the Palestinian right to an independent homeland.

On his first official visit to China as prime minister, Mr Netanyahu heard that the Chinese government believed that just as the Jewish people had gained sympathy to have a country, so "the efforts of the Palestinian people. . . to establish an independent state" had also won the support of the international community. Worldwide pressure on Israel increased as Manuel Marin, EU commissioner in charge of Mediterranean countries, said in Brussels yesterday that it was impossible to have a political dialogue with Mr Netanyahu.

Arafat calls for Arab summit, Page 8 Picture: AP

Tax revenues raise US budget surplus to $39bn

By Mark Suzman in Washington

Soaring tax revenues will increase this year's projected budget surplus to $39bn, well in excess of original forecasts, the White House said yesterday. Surpluses are likely to total nearly $500bn over the next five years.

The figures, compiled by the Office of Management and Budget, confirm the dramatic turnaround in the US fiscal position in recent months. As recently as February the White House was predicting a small deficit for the year. This year's surplus will be the first since 1969 and the largest for 40 years.

Jack Lew, acting director of OMB, said the new figures reflected actual tax receipts, including preliminary figures from the April tax filing season, and exceeded even the most optimistic expectations. "This is the first time in a generation that we have the opportunity to set priorities from a position of such extraordinary fiscal strength," he said.

President Bill Clinton hailed the news as testament to the sound economy, but repeated warnings that the US should use the surplus to support the troubled national pension system rather than to fund the tax cuts favoured by many Republicans.

"We cannot abandon the strategy of fiscal discipline and investments in the future that brought us to this moment," he said.

"Instead, we should work together across party lines to maintain fiscal responsibility, to save social security first, to prepare for an even brighter future."

The new budget estimates coincided with the publication of economic indicators on home building, consumer confidence and employment, which suggested the US economy was performing strongly without overheating.

The National Association of Realtors said home sales dropped 2.5 per cent to 4.77m in April, only slightly down from the record 4.89m in March, as median home prices rose 6.2 per cent on the year to $128,200.

A survey of US businesses by Manpower, a temporary staffing company, showed that 32 per cent of 15,000 companies interviewed planned to expand their workforce over the summer.

The new budget forecasts predict surpluses for at least the next decade, rising from $54bn in 1999 to $342bn in 2008.

But Mr Clinton warned he would veto any budget plans approved by the Republican-controlled Congress that failed to set aside the budget surpluses until a final plan to ensure the long-term solvency of the national pension system had been agreed. He said: "Let me also be clear that does not mean there could never be a tax cut. It simply means we need to know how we're going to pay for the challenges of reforming social security."

WORLD MARKETS

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	9,100.49	(-13.95)
NASDAQ Composite	1,802.40	(-2.60)
Europe and Far East		
CAC40	4,115.88	(+7.17)
DAX	5,644.29	(+69.13)
FTSE 100	5,970.7	(+15.1)
Nikkei	15,894.82	(+101.7)
US LUNCHTIME RATES		
Federal Funds	5.56%	
3-mth Treas Bills: Yld	5.151%	
Long Bond	104	
Yield	5.830%	
OTHER RATES		
UK: 3-mo Interbank	7½%	(7½%)
UK: 10 yr Gilt	110.75	(110.304)
France: 10 yr OAT	104.36	(104.03)
Germany: 10 yr Bond	107.91	(107.63)
Japan: 10 yr JGB	111.91	(111.73)
NORTH SEA OIL (Argus)		
Brent Dated	$14.245	(14.31)

GOLD		
New York: Comex		
(May)	$295.4	(299.7)
London:	$295.95	(300.35)
EXCHANGE RATES		
Dollar		
New York: lunchtime		
£	1.6355	
DM	1.7721	
FFr	5.943	
SFr	1.4724	
Y	137.925	
London:		
£	1.6365	(1.6336)
DM	1.7721	(1.7574)
FFr	5.943	(5.8934)
SFr	1.4724	(1.4625)
Y	137.295	(135.705)
Tokyo close:		Y 137.4
Sterling		
DM	2.9	(2.8708)

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WORLD NEWS

EUROPE

Yeltsin austerity fails to halt market fall

By Chrystia Freeland in Moscow

President Boris Yeltsin yesterday approved a tough programme to slash government spending but failed to stem the continued decline of Russia's financial markets.

The austerity programme will slash Rbs40bn ($6.5bn) from state spending this year. Ministers also announced details of a plan to enhance revenue collection, which the government expects will contribute an additional Rbs10bn-Rbs14bn to the state coffers.

The Kremlin is hoping the two-pronged initiative will revive Russia's ailing public finances and restore investor confidence. But the bear market continued to rage yesterday, pushing the RTS index to its lowest level since 1996 and forcing yields on some treasury bills to more than 60 per cent.

Investor pessimism about the economy and the shaky public finances threatens to become self-perpetuating as high interest rates choke off further burdens on the overwhelmed state treasury.

The turmoil could increase if the government fails to conclude successfully the sale of the oil company Rosneft. The auction got off to a shaky start yesterday.

The government also needs the vote of confidence Russian officials hope soon to receive from the International Monetary Fund.

The twin programmes of expenditure cuts and improved revenue collection are an effort to begin curing Russia's economic ills at their root.

On expenditure, the decree is designed to reduce spending by cutting the number of agencies funded by the federal government, slimming the federal bureaucracy, ending payroll bonuses for state employees, limiting federal spending on fuel and electricity, and slashing subsidies to industry.

On revenue, the government has prepared a 50-point plan to collect tax arrears, improve organisation of the state tax agency, tighten control over customs tariffs and alcohol taxes and use government property more effectively.

Mikhail Zadornov, the minister of finance, said the austerity programme was "of fundamental importance". "It reflects the political will of the president and his support for the government's measures to cut spending."

Investors praised the programme but warned that it might not be enough to turn around the negative mood on the markets. "It is a positive move, but, bold as it is, in the current environment the austerity programme was not enough to change the mood in the market," said Roland Nash, an analyst at MFK-Renaissance, a Moscow-based brokerage.

Polish unions win job cut delay

By Christopher Bobinski in Warsaw

Trade unions have won concessions from the Polish government on a plan for the loss-making coal industry which originally envisaged cutting employment by more than half within five years and a return to profitability in 2000.

The new proposals, unveiled on the eve of a Solidarity union miners' demonstration yesterday in Warsaw, accept that the industry will continue to run at a loss until the beginning of 2001.

At the same time the number of jobs is to be reduced by 105,000 by 2002 and not by 118,000 as originally planned. Poland currently has 240,000 miners and produced 137m tonnes of coal last year.

Despite the retreat on jobs, the government assumes that output will fall to the originally envisaged 112m tonnes in 2002. This means that productivity will rise by 41 per cent and not the 51 per cent initially proposed.

The government has also abandoned a proposal to freeze real wage increases until 2002. Instead it has accepted that wage rises should match those agreed with unions representing other industrial groups.

Solidarity in Silesia, Poland's most important industrial region, is stepping up pressure on the government to implement election promises on tax breaks to large families as well as for longer maternity leave.

These pledges have little appeal for Leszek Balcerowicz, the finance minister and leader of the pro-business Freedom Union, who fears their inflationary effect. His ministry is working to cut next year's budget deficit to below this year's expected level of about 1 per cent of gross domestic product.

About 1,000 miners and their families who support Solidarity Electoral Action (AWS), the trade union-led centre-right alliance which leads the government, marched yesterday to demand a "pro-family" tax regime and a 40-hour working week, compared with the 42.5-hour week now in force.

As the march took place, Kazimierz Kapera, the minister responsible for family policy, was presenting to the cabinet a family welfare report designed to underpin demands within the coalition for the new tax regime.

Waclaw Marczewski, the Solidarity Silesian region leader, told the marchers that the government was failing to implement its pledges. But Marian Krzaklewski, the AWS leader, told the demonstrators he was convinced "pro-family tax breaks" would be introduced next year.

Pay-TV groups fight to avert EU veto

By Samer Iskandar in Brussels

Kirch and Bertelsmann, the German media groups, made a last-minute attempt yesterday to save their planned digital pay-TV joint venture from a veto by the European Commission at its meeting today.

"We are negotiating with the Commission at this moment," an executive at CLT-Ufa, the Luxembourg-based company partly owned by Bertelsmann, said yesterday afternoon.

Karel Van Miert, competition commissioner, opposes the deal on the grounds that it would distort competition. The German cartels office, and regional cable operators and public broadcasters in Germany, share his concerns.

A group of competition experts from the 15 EU states backed this view for the second time in a month late on Monday, with only one member – from Luxembourg – supporting the deal.

The companies, which had told the Commission last weekend they would make no more concessions, are thought to have taken heart from reports that Mr Van Miert was under pressure from colleagues to approve the deal.

Deep divisions emerged on Monday, as Commission officials said it was not certain that Mr Van Miert would convince his colleagues to block the proposed venture at today's meeting. A Commission spokeswoman said the debate was likely to be "widely contested".

The position of Jacques Santer, Commission president, would be crucial. He can demand a vote at any time during the debate to get an indication of the different commissioners' positions.

Yesterday, Mr Van Miert played down the extent of support for the deal. "Some people think that with political pressure they can get their way," he told the European Parliament's economic and monetary affairs committee.

Martin Bangemann, industry commissioner, and Marcelino Oreja, the commissioner for culture and audiovisual policy, are in favour of deal. Mr Santer is believed to share their view. Others, including the French commissioners Edith Cresson and Yves-Thibault de Silguy, as well as Monika Wulf-Mathies, the regional policy commissioner, are also expected to disagree with Mr Van Miert.

The project involves folding DF-1, Kirch's loss-making digital television service, into Premiere, an analogue service operated by Kirch and CLT-Ufa. Deutsche Telekom, the partly privatised telecommunications group, would operate the distribution network.

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Now the Mezzogiorno climbs to the top of Prodi's agenda

The Italian government is under pressure to deal with the problems of the south, writes **James Blitz**

Living with the euro

Amid the heroic effort of budget deficit-cutting that has enabled Italy to join the European monetary union, one problem with roots deep in history has been largely ignored: the "Mezzogiorno", or the under-developed south.

Northern Italy is home to one of Europe's most powerful economies, with almost the highest per capita gross domestic product on the continent. But the south is the mirror image, among the least competitive regions in the new euro-zone and with almost the lowest level of per capita GDP.

Unemployment in much of the south stands at 25 per cent. Its black economy employs between one-third and one-half of the population. The recent mudslide disaster near Naples which killed 150 people confirmed the lamentable level of infrastructure and development.

With entry into the euro-zone achieved, Romano Prodi's government is turning its attention to the south more and more. The prime minister says his administration is entering a period in which the problems of unemployment will be tackled directly.

A new department has been set up in the treasury – Development Italy – aimed at co-ordinating public and private sector investment for the region. Carlo Azeglio Ciampi, the treasury minister, said this week the south had become the "new frontier of Italian enterprise".

Political pressure is increasing. Unemployed workers held large demonstrations last weekend in Naples. There are growing tensions within Mr Prodi's centre-left alliance. "I want to see the same effort being made for the south as was made to get us into the euro," said Antonio Bassolino, the powerful Naples mayor and a coalition supporter.

But even if money were available, Mr Prodi would be cautious about using it. Mammoth public sector transfers to the south over the last 25 years – providing the Mezzogiorno in the late 1980s with 75 per cent of its annual income – almost crippled the region. The transfers turned southerners into managers of state cash, not entrepreneurs.

Gianfranco Viesti, the government's adviser on the Mezzogiorno, believes the crucial question is whether the government can encourage Italian and European companies to invest in the region.

"The government says overall private sector investment should rise over the next three years as the economy grows," he said. "What local politicians want to see is a far higher proportion of this extra investment going to the south than has happened in the past."

Some signs suggest that investment is picking up. The UK's BAA recently took a 70 per cent stake in Naples Capodicchino airport. Gioia Tauro, on the toecap of Italy, has become the premier container port for the Mediterranean. Exports from southern companies have nearly doubled in the last four years.

But debate is still raging over whether other factors may hold back the south's growth in future years.

One is organised crime. Although the best-known mafia leaders have been toppled, Mr Ciampi admits that the problem of security remains "real". Organised crime remains rooted in the cultural attitudes of many parts of the south and in the poor public administration.

Fighting for the south: Antonio Bassolino, *mayor of Naples*, in pugnacious mood in front of a poster of his city AP

Then there is the cost of labour. Giampaolo Galli, an economist at Confindustria, says trade unions still insist on inflexible, all-Italian wage levels for the public and private sectors, despite significantly lower productivity in the south. "This is a huge disincentive to investors."

However, some politicians believe that, in many parts of the south, nationally agreed settlements are no longer respected and that Confindustria is refusing to admit this. Mr Prodi insists that unit labour costs in the south are the lowest in Europe outside Spain.

The third factor is the burden of non-wage costs on new investment. Italy's expensive pay-as-you go pension system can be funded only by putting a tax burden on employers that ranks among the highest in Europe. This deters international companies from investing in the south.

Moreover, the region's fledgling enterprises, rather than pay tax, slide into the black economy where they often breed the culture of crime that investors fear.

Given this mixture of constraints, the government aims to boost about 40 defined areas of the Mezzogiorno, by means of tax subsidies and a commitment from unions to lower wage costs. "It is a bottom-up policy of economic development, in which some areas of the south will grow faster than others," Mr Viesti said.

In his view, this policy must start to produce real improvement in investment and job creation within three years. If it succeeds, the stronger southern economy will transform Italy's overall economic performance. If it does not, many politicians believe the crisis of the south will overwhelm the government that took Italy into Emu.

Bank pressed to keep interest rates low

ECB watch

By Wolfgang Münchau in Frankfurt

German central bankers are signalling that interest rates in the euro-zone may not be as high as financial markets currently expect.

The consensus among financial analysts is for short-term interest rates in the 11 countries participating in economic and monetary union to converge to just under 4 per cent by the end of the year.

But a stable outlook for inflation and continued high unemployment in the heartland of the euro-zone have increased resistance in Germany and France to higher interest rates at this point.

Hans Tietmeyer, president of the Bundesbank, said two weeks ago that Germany's economic environment was remarkably stable, with no inflationary or deflationary pressure on the horizon.

Another German monetary official, speaking privately, went further, hinting that the prevailing interest rates in Germany and France – 3.3 per cent – could even emerge as the benchmark. He cast doubt on the strength and sustainability of the recovery in Germany, where economic growth is projected to rise by 2.7 per cent this year, after 2.3 per cent last year.

Germany was confronted with an extremely benign price environment, he said, marked by sustained public sector consolidation, falling unit labour costs, moderate wage settlements and moderate import price inflation.

Under its statutes, the European Central Bank must set interest rates without national prejudice. Privately, central bankers say that the core euro-zone states account for such a large proportion of gross domestic product that their economic development will carry an overwhelming weight in the ECB's decisions, forcing most of the adjustment process on to divergent outsiders.

With German and French short-term rates at 3.3 per cent and Spanish rates at 4.25 per cent, there will be pressure for the euro's own short-term interest rates to be in the lower half of that range. Hermann Remsperger, chief economist at BHF-Bank in Frankfurt, calculated that the "average" euro-zone securities repurchase rate was 3.7 per cent, weighted by the gross domestic product of each member-state.

The latest macroeconomic data also suggest that the euro-zone economy is not about to catch fire. According to Eurostat, the EU's statistical office, unemployment remained stubbornly high at 11.4 per cent in March, unchanged from February.

Euro-zone inflation was also low in March, at 1.2 per cent, unchanged from February. Monetary indicators, once they become available, are also expected to show a high degree of stability.

The Bundesbank said it already sets interest rates with a view to the euro-zone. However, at its regular council meeting tomorrow, it is expected to leave short-term interest rates unchanged.

● The European Central Bank will formally become operational next Monday after the formal appointment of its six executive directors yesterday. It will take over from the European Monetary Institute, its forerunner.

French drivers remove their blockades

By Andrew Jack in Paris

Striking French truck drivers agreed yesterday to dismantle roadblocks they had put in place during the day after only modest concessions from the employers.

Roger Poletti, general secretary of the transport division of the Force Ouvrière (FO) union, announced the decision while warning of possible future action from September.

His comments calmed fears that the World Cup soccer championship in June and July would be disrupted, as had been threatened in the past few days by Marc Blondel, head of FO.

Yesterday's decision came after a meeting between drivers' unions and the union of transport federations, the employers' body, which rejected demands for salary rises but offered a 1 per cent increase in expenses. It argued that there was no need to change a text agreed with some drivers' unions last November which pledged a minimum guaranteed salary, additional hourly premiums and wage increases.

French transport unions had been divided on the latest demands for strikes, with the more moderate CFDT as well the Communist-linked CGT questioning the strategy of threatening action linked to the World Cup.

The FO transport division called for an hourly rate of FFr55 ($9.30) against FFr43.15 at present, and a rejection of attempts to make an annual calculation of the level of overtime worked. The CFDT called for a 7.5 per cent increase in drivers' expenses and the FNCR union a 5 per cent salary rise.

Mr Poletti said FO would hold meetings with other unions today to discuss "points in common" between them over salary levels.

The national road information centre said that there had been 19 blockades around France yesterday, including four that blocked all traffic, 10 that allowed some to pass and five "snall operations" of slow-moving vehicles.

Several days of strikes last November were brought to an ended when employers and the moderate CFDT and CFE-CGC unions agreed to an improved settlement for truck drivers. FO and the CGT union refused to sign.

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NEWS DIGEST

INFORMATION TECHNOLOGY

Companies face rising costs to cope with Emu

The overall cost of preparing European companies' information technology systems to deal with European economic and monetary union has risen to between $150bn and $400bn, according to estimates prepared by Gartner Group, the IT consultancy.

"We recently revised our estimates for the overall European cost of Emu to include alternative scenarios, increasing staff costs and more information from early Emu projects," said Garner analysts in a recent research note.

The analysts estimate that, over a seven-year period to 2003, the cost of adapting IT systems to cope with monetary union could exceed some estimates of the cost of dealing with the Year 2000 computer date problem.

"Unfortunately, Emu and Year 2000 projects partially overlap in Europe," said the note. As a result many companies will be left with little spare or "discretionary" spending to invest in new IT systems or to develop new applications.

Even where there are sufficient funds available for "mandatory" projects like Year 2000 and Emu work, Gartner warns that discretionary activities, including new development work, will be constrained by capacity, particularly the availability of skilled staff. "Some organisations are already cancelling all new development work," said the analysts. They predict that market "winners" will include external service providers, packaged software vendors, organisations that addressed the Year 2000 problem early, companies with flexible management and budgets and IT companies selling software tools to help solve the Year 2000 and Emu issues. **Paul Taylor, London**

SWEDEN'S BLACK ECONOMY

Move to combat 'illicit work'

The black economy in Sweden employs up to 800,000 people, or 14.5 per cent of the working population, and deprives the government of SKr20bn-SKr40bn ($2.6bn-$5.2bn) in tax revenues, according to figures released yesterday by the national audit office.

Describing "illicit work" as a significant economic problem for Sweden, the audit office said it was drawing up recommendations on how to combat growth in the black economy.

The move follows a drive by the government to curb tax evasion in Sweden, which has the second highest tax burden in the industrialised world, after Denmark. The top marginal rate of tax is 59 per cent.

In spite of government attempts to maximise tax collection, the report suggested the black economy, mainly unregistered household work and cash-in-hand part-time employment, accounted for 5 per cent of all work done in Sweden.

The NAO has calculated that individual earnings from such work are at about SKr25,000 a year, equivalent in total to about 3 per cent of gross domestic product. Measures aimed at reducing tax losses through the black economy are due to be published next month. **Tim Burt, Stockholm**

HUNGARIAN STOCK MARKET

Move to calm investor fears

Share prices on the Budapest stock market steadied yesterday after Monday's steep fall as Viktor Orban, winner of Hungary's general election on Sunday, sought to calm investors' fears.

The Budapest stock exchange index rose modestly by 1.8 per cent after a fall of 8.7 per cent on Monday.

Mr Orban, leader of the centre-right Fidesz-Hungarian Civic party, is expected to be asked later this week by Arpad Goncz, the president, to form the next government, ending four years of Socialist rule. He said yesterday that there were no plans to change the leadership of the National Bank of Hungary.

Gyorgy Suranyi, governor of the central bank, has played a key role in Hungary's economic recovery in the past three years. Investors have been unnerved by demands for changes in exchange rate policy from the rightwing Smallholders party, which is regarded as the most likely coalition partner for Fidesz. **Kevin Done, London**

ANKARA AND EU

Turkey may lift talks boycott

Turkey said yesterday it was prepared to lift its boycott of talks with the European Union if an EU summit next month eased conditions for Ankara's future membership of the European club.

"We will wait for the Cardiff summit to see if there is any change or improvement in the European Union's position," a foreign ministry spokesman, Sermet Atacanli, said.

Ankara's relations with the EU soured last December when the EU put on hold Turkey's long-standing membership bid, citing disputes with Greece and its human rights record. "Those EU decisions will have to be reversed and rectified if there is going to be some improvement," Mr Atacanli said.

The mid-June summit of EU leaders in the Welsh capital of Cardiff will mark the end of Britain's term at the rotating EU presidency.

Turkey on Monday boycotted a meeting with EU foreign ministers, complaining about Europe's insistence on political conditions to restore ties and Greece's blockage of $415m in EU funding to Ankara.

Greece said it was not its fault that Turkey had decided to boycott the meeting to protest at being left out of the EU's expansion plans. **Reuters, Ankara**

GREEK BOOK BAN

Row over dictionary definition

A court in the northern Greek city of Thessaloniki has temporarily banned the sale of a new Greek dictionary because it includes a controversial definition of the word "Bulgarian". The dictionary's compiler, George Babiniotis, complained that his work had been censored.

The dictionary included a slang usage of "Bulgarian": an insult shouted at players and supporters of sports teams based in Thessaloniki or Kavalla, the Greek cities closest to Bulgaria, which have sizeable populations of Slav descent.

It also included other derogatory terms for popular soccer and basketball teams.

Evangelos Venizelos, culture minister, said it was a mistake to include the term. But a spokesman for the Socialist government defended Mr Babiniotis's "integrity as a researcher". The Thessaloniki court will decide tomorrow whether sales of the dictionary can resume. **Karin Hope, Athens**

GERMAN INFLATION

VAT rise has little impact

Germany's April increase in value-added tax had hardly any impact on inflation this month, according to provisional figures for western Germany from the federal statistics office.

Based on the returns of four large western states, the cost of living in western Germany increased 0.3 per cent in May from April.

This month's year-on-year inflation rate was put at 1.2 per cent, down from 1.4 per cent in April. **Peter Norman, Bonn**

Italian local elections see centre gain ground

By James Blitz in Rome

Italy's former Christian Democrat parties have performed surprisingly well in local elections this week, raising the possibility of a re-emergence of the centre in Italian politics.

As final results came through from the elections, *held on Sunday, it emerged* that Christian Democratic Centre, the Christian Democratic Union and the newly-founded Democratic Centre for the Republic had done as well as, and sometimes even better than, the main political parties in the south.

The local elections, in which about 10m people voted in 519 Italian municipalities and 12 provinces, have produced a highly fragmented outcome.

The parties in Romano Prodi's centre-left coalition appear to have reaped little reward from the government's recent success in making Italy a founder-member of the single European currency.The Party of the Democratic Left lost votes in many towns.

Silvio Berlusconi's conservative Forza Italia performed a little better than expected, *getting six of its candidates* elected as town mayors on a first ballot.

However, Forza Italia's performance was overshadowed by the successes of the former Christian Democratic parties, whose forebears dominated Italy's political scene until the political revolution of the early 1990s.

In the southern port of Messina, for example, the ex-Christian Democrats won 35.4 per cent of the vote, compared with a combined 27.6 per cent for Forza Italia and the rightwing National Alliance.

Another example came in the small southern town of Isernia, where the centrist candidate for mayor came first with 37.3 per cent of the vote, compared with 14.3 per cent for the parties of the right.

The former Christian Democrats thus showed that they retain influence in parts of the south where they planted deep roots in the post-war period.

Adding to the sense that the election was something of a journey back to Italy's first republic was a strong performance by the now regrouped socialists, who claimed that they had managed to get around 4 per cent of the total vote.

Extremist parties fared badly. Umberto Bossi's Northern League lost heavily in regions such as Piedmont and Liguria which witnessed the party's expansion in the early 1990s.

On the left, the Reconstructed Communists, on whom Mr Prodi relies for a parliamentary majority, lost between one and two percentage points across Italy compared with the 1996 general election, pushing their support below the 10 per cent mark.

Danes debate foreigners and frontiers in run-up to vote on Amsterdam treaty

'No' campaign has seen a rise in support before referendum tomorrow, writes Hilary Barnes

When extreme left and right come together, more often than not it is over "foreigners". And so it is in Denmark, which goes to the polls tomorrow to approve or reject the Amsterdam treaty that prepares the way for former eastern bloc countries to join the European Union.

"Welcome to 40 million Poles," said one of the No campaign's posters, later withdrawn after protests about its xenophobia.

Still, the message appears to have hit home. A Gallup poll published yesterday showed a late rise in support for the No vote.

Over the past 10 days, the No vote has risen from 35 to 39 per cent, as voters who were undecided have come down against the treaty.

However, the poll showed a majority of 47 per cent in favour, but with 14 per cent still to make up their minds.

The referendum tomorrow will be Denmark's fourth on an EU issue in 12 years.

In June 1992 the Danes rejected the Maastricht treaty on economic and monetary union but reversed their verdict a year later after the government had negotiated several opt-outs from the treaty.

The campaign for the Amsterdam treaty has been marked by a union of interests among the ever-doubting Danes between the country's far right and extreme leftwing parties and pressure groups. "When you try to find a point at which the views of these two meet, things become somewhat confusing," said Niels Helveg Petersen, foreign minister since 1993 and a strong supporter of the Amsterdam treaty.

Mr Petersen accused the June Movement, the most influential of the anti-EU *extra-parliamentary organisations*, which is dominated by the left, of "playing on fear of foreigners" with its poster referring to Poles.

Frontier controls and the Shengen agreement (by which the continental EU member-states have suspended internal border controls while toughening up controls at frontiers with third countries) have become one of the dominant issues in the no-campaign.

Frontiers with controls "are a symbol of the nation state," says Pia Kjaersgaard, leader of the rightwing populist Danish People's party. She is afraid that open frontiers will mean that Denmark will be swamped by an uncontrollable refugee problem. Holger K. Nielsen, leader of the Socialist People's party, is demanding that in case of a No vote, Denmark must withdraw from the Shengen agreement. The leftwing argument on the other hand is that the EU's common external frontier controls are creating a "fortress Europe".

On the pro-Amsterdam side are all the parties of the moderate left and right, ranging from the present minority coalition government parties, the Social Democratic party and the Radical party, to the opposition Liberal party and the Conservative party.

These represent about 80 per cent of members of parliament which, however, *cannot approve* a treaty transfering sovereignty to an international organisation unless there is a five-sixths majority.

The entire national press urges voters to support the treaty, with one important exception, the anti-establishment tabloid Ekstra Bladet.

Business opinion is overwhelmingly in favour. "It would not be wise for the Danes to vote no," declared Maersk Mc-Kinney Moller, who controls A.P. Moller-Maersk, one of the world's largest private shipping groups.

Poul Nyrup Rasmussen, the prime minister, and his Social Democratic party argue that Amsterdam makes for "a better union".

The Amsterdam treaty's clauses committing the EU to strengthen its efforts to protect the environment, to promote employment and openness (or transparency in the EU's decision-making process), are constantly cited by the prime minister as good reasons for supporting the treaty, the text of which was strongly influenced by the Danish and other Nordic governments.

Conducting an energetic campaign with meetings all over the country, Mr Nyrup Rasmussen, has sought to convince his own, somewhat doubtful grass-roots supporters that the EU is a social democratic project.

The Nordic model of the welfare state he describes as "a fantastic vision".

But perhaps the pro-treaty parties' strongest card is the uncertainty that a No vote would cause.

The prime minister has stopped short of declaring bluntly that, if there is a No vote, Denmark will have no future in the EU, but in some of his campaign statements and interviews he has hinted heavily that this could be the case.

The Eurosceptics point out that the treaty cannot be implemented until ratified by all 15 member states, and that, legally, no member can be thrown out of the union. "We can safely say No again. They can't chuck us out," says Mr Nielsen.

But Mr Nyrup Rasmussen fears that the other 14 will move ahead anyway, leaving Denmark isolated. "A renegotiation of the treaty, which the No side wants, is totally unrealistic," he says.

Inhabitants of the ethnic Georgian village of Tagiloni watch from a bridge as their homes burn Reuters

Abkhaz rebels agree ceasefire

By Selina Williams in Zugdidi, Georgia

The worst fighting between Georgian armed groups and separatist Abkhaz rebels in more than five years calmed yesterday, hours after the two sides reached a ceasefire overnight.

A steady stream of villagers carrying only their children crossed the river border separating Abkhazia and the rest of Georgia.

On the opposite banks of the river, plumes of black smoke rose from houses set alight by Abkhaz separatists.

"Why are they burning our houses?" said pensioner Ekaterina Dzadzua. "We've left, why do they have to ruin our land and our houses as well?" Other refugees said the Abkhaz were also killing their livestock so that the Georgians would not return.

Abkhazia attempted to secede from Georgia in 1992, *sparking a war in which* more than 10,000 people died. The region remains outside the control of the central Georgian authorities, but foreign countries have not recognised Abkhazia's independence.

Renewed fighting threatens Georgia's fragile stability and could hamper its chances of winning a contract for a large oil pipeline from neighbouring Azerbaijan – a decision due to be announced later this year.

On Monday Georgian and Abkhaz leaders agreed to a ceasefire to be followed by a withdrawal of forces. But automatic gunfire and explosions from rocket-propelled grenade launchers were audible most of the day. By evening the shooting had stopped, but even more houses were burning.

In the Georgian capital of Tbilisi, a large military parade to celebrate 80 years *since the first declaration of* independence from Russia was cancelled.

Government officials say some 35,000 people have fled Abkhazia.

Although representatives from international aid organisations say the figure is probably lower, local authorities are still stretched to cope with the influx of people, most of whom have nowhere to stay.

Some refugees are staying with relatives. Others are sleeping in makeshift shelters at local schools and hospitals and about 900 people are sleeping on the concrete floor of a nearby paper factory.

A fragile peace had held in this region on the Black Sea coast since 1993 after Georgian troops and Abkhaz separatists began fighting for control over the region in 1992.

Schröder names dream team

By Peter Norman in Bonn

Gerhard Schröder, the opposition challenger to Germany's chancellor, Helmut Kohl, surprised Bonn yesterday by naming the key members of a future Social Democrat ministerial team, should the SPD win the September 27 general election.

Five men and three women were named at a meeting of the SPD parliamentary party, about a month earlier than expected, after mounting speculation about the members of Mr Schröder's team in the press and party.

Oskar Lafontaine, 54 and SPD leader since late 1995, will be responsible for financial and European policy. Rudolf Scharping, 50 and leader of the SPD MPs in parliament, takes over foreign and security policy.

Internal affairs becomes the responsibility of Otto Schily, 66. Franz Müntefering, the party's campaign manager, is designated head of the chancellery. Rolf Schwanitz, an MP from eastern Germany, will be responsible for revitalising the new Länder (states).

Mr Schröder appears to have named his team to quell growing unrest among SPD MPs after his recent decision to name Walter Riester, a prominent trade unionist, as future labour minister. His sudden action also deflected attention from yesterday's events in the eastern German state of Saxony-Anhalt, where Reinhard Höppner was elected prime minister of an SPD minority government with the support of the former communist Party of Democratic Socialism.

The three women include two MPs, Herta Däubler-Gmelin, who takes the justice portfolio, and Edelgard Bulmahn, responsible for environment, education and research. Christine Bergmann, labour minister in Berlin, will be responsible for women, the family and children.

Foreign banks face fines over Japan trading

By Gillian Tett and Alexandra Harney in Tokyo

Japan's Securities and Surveillance Commission yesterday accused HSBC Securities and ING Barings of conducting illegal securities trading in their Tokyo branches.

The Ministry of Finance is expected to impose penalties on the two European investment banks. Officials say any fine is unlikely to exceed Y300,000 ($2,200), but it would be the first time a foreign securities company in Japan had been fined.

HSBC Securities is accused of breaking Tokyo stock market rules by mixing up customer and client accounts. ING Barings is accused of illegally trading borrowed equities. Both companies said they accepted the SESC allegations. Naoya Ozawa, branch manager of HSBC Securities said: "We should have been more careful in following existing rules."

Rike Wootten, branch manager of ING Barings said: "We are in agreement with the SESC findings and have been working closely with them. None of our clients has suffered."

Officials yesterday stressed the offences were "technical" and not intended to generate profit for the banks or defraud clients.

Yesterday it also emerged that the SESC is investigating a former executive of Nissan Motors for suspected insider trading. The SESC has recently been stepping up its efforts for better regulation of the financial sector. A senior SESC official said: "We have gradually been moving towards the mindset of trying to root out any violations or irregularities [in the stock markets] during the last six years."

The SESC's action comes as western banks in Tokyo pose a greater competitive threat to their Japanese rivals following Big Bang deregulation in April. One US banker yesterday said: "Perhaps this is just inevitable because [foreigners] now have so much market share. But there is a always some lingering concern about an anti-foreign backlash."

The only previous occasion when the SESC has ever punished a foreign financial company was in 1995, when it reprimanded Merrill Lynch, the US investment bank, over another technical breach of trading rules.

The allegations against HSBC Securities centre on an order it received from a leading institutional client last August for a basket trade of 77 stocks. The client wanted it settled in one day. But nine of the stocks closed untraded because Tokyo, unlike London, does not use a "market maker" system and so cannot settle trades if bids do not match orders.

To hide the problem, HSBC secretly settled the trades on its own account and cleared them in the open market the following morning. But this breached Tokyo Stock Exchange rules. Between January and February HSBC also made slightly incorrect price reports to clients to offer them a better service, the SESC said.

ING Barings is accused of carrying out equity trading orders for clients on its own account before later settling them in the markets. This breached TSE rules because it meant the bank traded shares it did not own.

NEW PARTY FORMED SUHARTO-LINKED BANK SUFFERS HEAVY WITHDRAWALS BUT REJECTS REPORTS OF IMPENDING LIQUIDATION

Habibie speeds pace of political reforms

By Gwen Robinson in Jakarta

President B.J. Habibie accelerated his push for political reform yesterday by lifting the ban on labour unions and telling activist leaders he was prepared to call general elections within months.

In a wave of reformist fervour triggered by the resignation of former President Suharto last week, labour activists launched the Indonesian Workers party (PPI) to challenge Golkar, the ruling party.

International Monetary Fund officials returned to Jakarta yesterday to begin a fresh assessment of the Indonesian economy. At the peak of Indonesian turmoil earlier this month, the IMF suspended the latest disbursement of a $10bn balance of payments loan, the centrepiece of the Fund's $43bn rescue package.

Hubert Neiss, the Fund's Asia-Pacific director, who is due to hold talks with Mr Habibie tomorrow, said Indonesia's immediate priorities were to get the economy moving as quickly as possible, prevent hyper-inflation and stop a collapse of the banking system.

In a further sign of the backlash against the former regime, Bank Central Asia, the country's largest private bank, continued to suffer heavy withdrawals yesterday. BCA is 70 per cent-owned by Sudono Salim, one of Mr Suharto's closest associates, and 30 per cent by two of Mr Suharto's children.

BCA officials said they would fulfil obligations to customers and rejected rumours of impending liquidation. However, no details have been announced of the bank's financial condition, which one banking analyst described yesterday as "perilously poor".

Indonesian media reported that Mr Salim's son, Anthony Salim, had injected Rp1,000bn rupiah ($91m) into BCA to strengthen its capital structure.

"Whether the government quietly props up the bank, or bites the bullet and puts it under supervision – or even lets it go – will be a telling sign of this government's commitment to de-cronyisation," said a foreign diplomat in Jakarta.

The PPI is the first party to be established under the new freedoms promised by Mr Habibie. Only three parties are allowed under existing laws. Bintang Pamungkhas, a prominent political prisoner released from prison yesterday, said he also planned to register a political party and campaign for the presidency.

Mr Bintang, who was jailed for defaming Mr Suharto in 1995, was one of two political prisoners released yesterday in the first step of a government promise to free thousands more political dissidents.

The amnesty programme is one of Mr Habibie's most significant attempts so far to distance himself from the Suharto regime. "This is just the starting point for a total reformation of the country," Mr Bintang shouted to well-wishers on his release.

Mr Habibie followed up his announcement of sweeping economic and political reform on Monday with promises to fight racism and religious discrimination. On a visit to Jakarta's ravaged Chinatown district, scene of looting, burning and violence earlier in the month, Mr Habibie sought to reassure ethnic Chinese residents who dominate business.

OECD REPORT PACKAGE SHOULD BE IMPLEMENTED SWIFTLY TO BRING ABOUT GROWTH

Japan fiscal stimulus 'sufficient'

By Robert Chote, Economics Editor

Japan's latest fiscal stimulus package should be sufficient to stabilise output in the country this year if it is implemented swiftly, according to the Organisation for Economic Co-operation and Development in Paris.

In a revised version of its twice-yearly Economic Outlook, the industrial country think-tank predicted the April package could increase domestic demand by 0.75 to 1.25 per cent this year.

The Y16,000bn package was the seventh and biggest attempt to kickstart the moribund economy since last year. It included Y2,000bn in income tax cuts in 1998 and 1999, plus Y7,700bn in public works spending and Y4,000bn for the property market.

The package had "the potential to head off the serious recession which would otherwise have occurred", the OECD said. It predicted output this year would be unchanged on 1997, rather than falling 0.3 per cent as the forecast said in April.

"If the implementation is rapid, the package may stabilise activity in calendar year 1998, and under favourable circumstances lead to real GDP growth of some 1.5 to 2 per cent over the fiscal year that has just begun," the outlook argued.

The OECD had forecast a 1 per cent fall in domestic demand in April, but thinks that the latest stimulus could yield results quickly. "Much depends on the speed of implementation of planned public spending and on the extent to which the proposed tax cuts translate into higher household consumption rather than extra saving," the outlook said.

Ignazio Visco, the OECD's chief economist, said the package "should be implemented faster than in the past in order to have the impact we project". Without the package, the OECD would have revised its April forecast to show an even deeper recession this year.

Mr Visco echoed international calls for Japan to make tax cuts permanent and to step up reform of the banking sector, addressing balance sheet weaknesses and improving regulation.

The OECD also argued that the Asian economic crisis had eased the pressure on the Federal Reserve to tighten monetary policy in the US. "The weakening of US exports, together with the effects of the dollar appreciation on import prices, has delayed the need for increases in policy-controlled interest rates," it said.

But the OECD warned against complacency. "Inflation pressures could emerge as soon as the situation stabilises in Asia and temporary factors contributing to the present favourable outlook wear off," it said.

The driving force behind growth

Japan's information and communications industry generated output of Y103,300bn ($760bn) in fiscal 1996, or 11.4 per cent of total domestic industrial production, according to a report by the Ministry of Posts and Telecommunications, **Michiyo Nakamoto reports from Tokyo.**

The ministry's report highlights the extent to which information and communications has become the driving force behind economic growth in Japan. The report says that between 1993 and 1996 the industry, which comprises communications, broadcasting, information-related equipment manufacturers and games machine makers, had annual output growth of 6.4 per cent. This was ahead of average output growth in other industries, which came to 1.68 per cent. Investment by the industry also far surpassed that of other industries. Compared with investment of Y4,100bn by telecommunications operators in 1996, steel companies invested Y1,480bn and vehicle makers Y2,870bn.

NEWS DIGEST

'BIG BOMB' CAN NOW BE MADE

India will 'inevitably' arm itself with N-weapons

India will "inevitably" arm itself with nuclear weapons as the natural consequence of its five nuclear tests earlier this month, according to George Fernandes, defence minister. However, he said the timing of such a move, which he said would entail mounting nuclear warheads on a tested series of indigenously built missiles, would "depend on the kind of perceptions" following India's five underground tests.

The tests were acclaimed at home but deplored abroad. Atal Behari Vajpayee, prime minister, said after the tests on May 11 and 13 that India was capable of making a "big bomb". "Without weaponisation, this whole question of being a nuclear state does not make any sense," Mr Fernandes said in a television interview.

Any formal move towards nuclear arms would be likely to follow a review of India's strategic needs begun by the government, led by the Bharatiya Janata party (BJP).

Indian government scientists say they have not yet completed testing of the Agni, an intermediate-range ballistic missile with a range of up to 2,500km, enough to reach parts of China. The Agni is believed capable of carrying a nuclear warhead and could, scientists said last week, be made in "numbers". **Mark Nicholson, New Delhi**

SOUTH KOREAN HARD LINE

Strike leaders warned of fines

South Korean prosecutors warned they would arrest trade union leaders and make them financially responsible for economic losses if they went ahead with a two-day general strike scheduled today. Fears of labour unrest, sparked by growing unemployment, caused the Seoul bourse to fall by 5.8 per cent to a new 11-year low of 311.99 points.

The dissident Korean Federation of Trade Unions (KFTU), the smaller of Korea's two trade union groups, plans to hold rallies in Seoul and other cities, with at least 100,000 workers having pledged to join. The threatened crackdown is the strongest warning issued yet by the government of President Kim Dae-jung, who supported union rights when he was opposition leader.

The KFTU, which represents 550,000 workers in such important export industries as cars, shipbuilding and steel, is staging the strike to demand an end to mass redundancies and the use of temporary workers.

The recession caused unemployment in April to jump to 6.7 per cent, the highest level in 12 years, and analysts expect it could reach 10 per cent by year's end. **John Burton, Seoul**

MALAYSIAN LENDING

Loans miss government target

Bank Negara, the Malaysian central bank, said yesterday that total lending grew 14.7 per cent in April, short of the target 15 per cent the government has set for annual growth. Analysts said the slowdown points to the difficulties Malaysians have had in obtaining credit from financial institutions, which are facing mounting unpaid loans. Lending has been slowing since the regional crisis took hold of financial institutions, then burdened by a domestic credit to gross domestic product ratio of about 170 per cent – the highest in south-east Asia.

The authorities are now looking for ways to revive lending as economists say the country is fast heading toward recession. Analysts believe the seriousness of the credit problems was highlighted in recent weeks by the government's decision to raise export credit financing facilities to M$4bn (US$1.05bn), from less than M$2bn, and to establish an asset management company to buy the non-performing loans and assets of troubled financial institutions so they can resume lending. Bank Negara also reported that banking system deposits fell M$4.6bn, far more than the M$1.4bn by which deposits fell in March. **Sheila McNulty, Kuala Lumpur**

Thais to relax monetary policy in IMF deal

Agreement allows for expanded fiscal deficit and is expected to result in payment of next tranche in rescue package

By Ted Bardacke in Bangkok

Thailand will expand its fiscal deficit and relax monetary policy to compensate for a deeper than expected recession hitting the country, the government said in its latest agreement with the International Monetary Fund.

The agreement, stated in the government's fourth letter of intent to the IMF, is expected to result in a June disbursement of the next tranche of the Fund's $17.2bn rescue package.

The government and the IMF now say the economy will contract by between 4 and 5.5 per cent this year, the third downwards revision since the rescue plan was agreed last year.

As a result, the public sector will run a deficit of 3 per cent of gross domestic product, while interest rates will be further reduced and broad money supply growth will nearly double to 9 per cent.

At least half of new government spending will be targeted directly at the poor and those most vulnerable to the costs of economic restructuring.

The government also plans to use the proceeds of its planned global bond issue to fund increased lending by state-owned development banks.

But the loosening of both fiscal and monetary sides of economic policy is not quite the radical detour from IMF orthodoxy it might seem. Some of the relaxation will simply offset the lower revenue collection and increased inflation accompanying the recession.

In addition, both Thai cabinet members and IMF officials said renewed weakening of the exchange rate, which some private sector economists say is a by-product of the massive liquidity injection needed to get the economy moving again, would not be tolerated.

"Stabilisation of the exchange rate will remain the primary objective of monetary policy," the government's letter to the IMF says. "However. . . there is room for further cautious reductions in the overnight repurchase rate.

"We will use the increased [monetary growth] provided exchange rate stability is maintained. However, if there is increased pressure on the exchange rate, we will raise interest rates and tighten the monetary programme as necessary," the letter says.

Since the baht stabilised at around Bt40 to the US dollar three months ago, interest rates have fallen nearly six percentage points and the central bank reduced them a further 25 basis points to 17.5 per cent yesterday.

That interest rate reduction has not been sufficient to create the liquidity the Thai private sector is asking badly for. And though the there will be absolute monetary growth it will still be less than the 10.5 per cent annual inflation rate being forecast.

"To really create money you need to reduce interest rates further. We hope that can happen more after inflation peaks," said one official.

In other areas of the letter, the Thai government pledges to continue its fast-paced reform of the financial system by pushing for more private sector-led recapitalisations and finalising a plan for a deposit insurance scheme to replace the blanket government guarantee now in place.

The government has also agreed to adopt a strategy by the end of July for the eventual privatisation of the four commercial banks nationalised earlier this year.

Losses stemming from the bailout of the financial system will be incorporated into the central government budget beginning next fiscal year.

The promise to privatise state enterprises undergoes a substantial reworking in the latest letter. Instead of listing the companies the government plans to privatise within a specific timeframe, the letter emphasises the development of an overall privatisation master plan which officials say will result in a more robust privatisation process in the medium term.

Tarin Nimmanhaeminda, Thailand's finance minister, talks to the press before yesterday's cabinet meeting, which approved the letter of intent with the IMF AP

ASIA TELEVISION AUTHORITIES APPROVE DEAL DESPITE CRITICISM

Hong Kong's ATV won by pro-Beijing interests

By Louise Lucas in Hong Kong

Hong Kong yesterday gave the go-ahead to Beijing-linked interests to take control of the smaller of the territory's two terrestrial TV stations, stoking controversy over the growing inroads of mainland forces in the territory's media.

Asia Television (ATV) will be controlled by one of the new directors, Lui Changle, chairman and chief executive officer of the Phoenix Chinese Channel. Phoenix, 45 per cent owned by Rupert Murdoch's satellite broadcaster, Star TV, enjoys rare access into China, which has been denied to other foreign broadcasters.

Kaushik Shridharani, media analyst at Salomon Smith Barney in Hong Kong, said ATV was set to become a cog in a bigger machine churning out programming for the mainland market. "This is part of a bigger picture oriented towards China," he said.

Earlier this month Sally Aw relinquished control of Sing Tao, the publishing house which she inherited from her father, to Mingley Corporation, controlled by Cha Ching-ming, a pro-Beijing businessman who also sits on a number of China committees.

"We are seeing the influx of all these pro-Beijing factions getting hold of the media," said Emily Lau, a pro-democracy legislator returned to power in Sunday's elections.

The Hong Kong government passed the ATV deal in spite of several obstacles, including non-Hong Kong resident consortium members and monopoly build-up and conflict of interest concerns raised by Mr Lui's pivotal position within Phoenix.

The government said it had granted the approval because of the different markets targeted by Phoenix and ATV, and also because Mr Lui's 13.79 per cent interest in ATV did not breach the 15 per cent monopoly build-up guidelines. In total, however, Phoenix interests pass 15 per cent; Chan Wing-kee, a textile magnate who sits on Beijing committees, will have 3 per cent of ATV.

ATV, whose former chairman and majority owner was arrested in Taiwan on bribery charges earlier, will now be chaired by Wong Po-yan, head of the Airport Authority. Mr Wong is considered close to Beijing, and served on the now defunct Beijing-appointed Preparatory Committee which oversaw the handover of Hong Kong.

● China yesterday confined its comment on the Hong Kong election on Sunday to a statement on the high turnout. It remained silent on the Democratic party's victories. The reaction revealed the discomfort China feels over political parties which have been critical of Beijing.

Pro-democracy parties took 14 of the 20 directly elected seats in Hong Kong. The 40 other seats, elected through committees and professional associations were dominated by pro-business and pro-Beijing groups.

'ILLUSORY PROFITS' ACCOUNTANTS DENY CLAIMS OVER SPECTRUM

Arthur Andersen faces SEC action

By Richard Wolffe in Washington

The US Securities and Exchange Commission yesterday launched legal action against two partners of the accountancy Arthur Andersen, alleging they approved of "illusory profit" statements by an information technology company.

The SEC's enforcement division applied for a cease-and-desist order against Jeffrey Steinberg and John Geron for "improper accounting" which allegedly helped Spectrum Information Technologies to breach securities laws.

Arthur Andersen strongly rejected the SEC's claims yesterday and pledged to support its partners in their defence. The firm said the partners had been given misleading information by other staff and by Spectrum over unaudited interim financial statements.

The firm said the case was a landmark test of accountants' liabilities when giving advice to clients. The case would also have "a chilling effect" on consultations between partners, it added.

Mr Steinberg and Mr Geron are accused of supporting Spectrum's attempts to report non-existent revenues and profits, dating back to 1992. The allegations followed an aggressive campaign by Spectrum to convince customers – including a modem maker – to pay "seven figure" licensing fees for using technology on which it claimed to have patent rights.

Case is a 'landmark test of accountants' liabilities'

When the companies refused to pay the fees, Spectrum reportedly asked three customers to enter into "advertising agreements" under which Spectrum paid users for "purported advertising" in exchange for licensing fees. The advertising payments matched the licensing fees, leaving Spectrum with no net income from the deals.

The SEC alleges Arthur Andersen approved of a Spectrum plan to account for the deals by treating the licensing fees as current revenue, while deferring the advertising payments. "This accounting treatment created the illusion of revenues and profits in the current period, even though the underlying transactions had no economic substance, apart from the initial payments," the SEC said.

Mr Steinberg, the partner in charge of the Spectrum account, is alleged to have consulted Mr Geron, a regional practice director in New York, to approve the accounting approach. The SEC accuses Mr Steinberg of drafting footnotes to unaudited statements, which concealed the true nature of the deals.

Their actions allowed Spectrum to report profits in two quarters in 1993, even though the company actually lost $2m.

Farm customs and El Niño leave Mexico in flames

Fires consuming vast tracts of forest have focused attention on the need to stamp out peasants' slash-and-burn farming methods. **Leslie Crawford** reports

Smoke wreathes a forest outside Mexico City after this month's fires — Reuters

The El Niño weather phenomenon is departing from the northern hemisphere with a powerful sting in its tail: Mexico is in flames.

More than 11,000 fires are raging out of control throughout the country, destroying large tracts of virgin forests, threatening wildlife sanctuaries, and engulfing towns in a dense pall of smoke.

The environment ministry estimates the fires have consumed more than 700,000 acres of forest and grassland, a disaster equal in magnitude to the destruction wrought by fire in the Amazon two months ago. More than 30 peasants and firefighters have died fighting the blazes.

Mexico City declared a smog emergency yesterday. The capital, home to 18m people, is being choked by 16 separate fires in the mountains and volcanoes which surround the valley, compounding the city's already chronic air pollution. During the emergency, the use of private vehicles will be restricted to three days a week, outdoor sports activities are banned, and doctors are advising the elderly and the very young to stay indoors.

The smoke has drifted as far north as Texas, where governor George W. Bush issued a state-wide health alert. Cotton farmers in the Rio Grande Valley say their crop will be damaged by sunlight deprivation caused by the smoke.

The fires erupted after a long winter drought. Some states in central Mexico have had no rain in 14 months. Reservoirs are down to 24 per cent of their normal capacity, according to the secretariat for hydraulic resources, which is rationing water available for irrigation. As a result, the acreage under cultivation is expected to fall dramatically this year, while food imports are expected to rise.

"If there is no rain in the next 10 days, it will be too late to sow the staple maize and sorghum crops," says Willy Joos, managing director of Novartis, the Swiss agrochemicals company, in Mexico City. "We are forecasting a 30 to 40 per cent drop in the acreage planted to basic grains."

Mexican and US weather forecasters see no immediate relief for the country's longest drought in 70 years. No significant rains are expected until June.

Most of the fires were started by peasants who slash and burn to clear new land for farming. They have also been fanned by illegal loggers, cattle ranchers and sugar cane farmers, who traditionally burn their fields before reaping the cane by hand. The army has also accused drug traffickers of deliberately starting fires to hinder drug interdiction efforts.

"Slash-and-burn fires are a recurrent event. It is an archaic farming practice which destroys more than 240,000 acres of forest in Mexico every year," says Guillermo Castilleja of the Worldwide Fund for Nature. "What is unusual this year is the severity of the drought, which has spread the flames to rainforests which are usually too wet to burn."

Thousands of acres in the Lacandon jungle and in the Chimalapas Biosphere Reserve, two of Mexico's last remaining tracts of virgin rainforest, are burning out of control. The Lacandon jungle, in the southern state of Chiapas, has remained a no-go area for the Mexican government since Zapatista guerrillas launched an insurgency there in January 1994.

There is, however, more hope for the Chimalapas, where more than 3,600 soldiers and emergency service personnel are battling the flames.

According to Homero Aridjis, a prominent Mexican environmentalist, the Chimalapas reserve is the world's fourth richest forest in terms of bio-diversity.

It is the habitat of 62 species of reptiles, and of rare orchids and birds, including the plumed Quetzal, worshipped since Maya times.

"The fires are a national tragedy," Mr Aridjis said. "We do not know how many species may have disappeared forever."

The scale of destruction has, belatedly, focused national attention on Mexico's backward countryside. Environmentalists accuse the government of neglecting rural development for decades, while an inefficient system of farm subsidies, which pays peasants for the acreage under cultivation rather than the crop yield, has encouraged rapid deforestation.

President Ernesto Zedillo, during a helicopter tour of Chiapas's devastated forests last week, appeared shocked by what he saw.

"We need to tackle the true, underlying problem ... which is the centuries-old custom of slash and burn farming," he told a group of peasant leaders. "Those who use this ancient farming method can barely eke out an existence. To get 500 kilos, 300 kilos, from an hectare of maize allows no one to survive.

"We are burning our forests. We are wiping out the jungle. We are wiping out natural resources that can never be replaced," Mr Zedillo said. "We need to take a great technological leap to leave slash-and-burn practices behind."

Saez promises Caracas reform

By Raymond Colitt in Caracas

Irene Saez, a leading candidate for December's presidential elections in Venezuela, will promise a sweeping reform of the country's bloated state apparatus as part of an economic platform she is to announce soon.

But the former beauty queen will offer no quick fix to the country's persistent inflation, one of the highest in Latin America, her chief economic advisers said in an interview.

If elected, Ms Saez would privatise the country's moribund power and fledgling petrochemical sectors, raising over $10bn in revenue. That would go to amortise the country's public debt, which requires service payments of $4.3bn this year.

She would reduce the number of ministries and quasi-ministries from 24 to 10, and transfer health and education services, including some 500,000 employees, from the central to state governments.

To finance such services her administration would also transfer tax authority on local sales, petrol, and personal income.

Until now Ms Saez has side-stepped economic issues.

But after recently losing her long-standing lead in the polls to Hugo Chavez, the former military coup leader, her advisers believe it is time to define her proposals more clearly.

The only way to eradicate inflation, the Saez team says, is to attack fiscal and economic volatility by boosting non-oil revenue, introducing a fund to compensate for oil price fluctuations, strengthening the autonomy of the central bank and creating more flexible and efficient fiscal and monetary policy instruments.

Personal and corporate income taxes would be reduced from 34 per cent to 28-30 per cent, while the wholesale tax would be reduced from 16.5 per cent to 12 per cent.

Court case may boost Windows

By Louise Kehoe in San Francisco

The US Justice Department's battle against Microsoft has boosted consumer interest in the new version of Windows and may even increase initial sales of the operating system, according to industry analysts.

Although the software company faces a tough legal battle in the antitrust case, the fight has drawn worldwide attention to Windows 98, scheduled for introduction on June 25.

With the date for the first hearings now set for September 8, it appears unlikely that the antitrust case will delay the product launch.

And if potential customers believe Microsoft may later be forced to change the program by removing its internet browser, they may hasten their purchases.

Consumer interest spurred by the antitrust cases, as well as promotions by retailers who will offer the product as a "loss leader" to boost sales during the slower summer months, could result in an initial spurt of sales of Windows 98 upgrades, said William Peterson, an analyst at International Data Corporation, a US market research group.

Some 12.8m copies of Windows 98 are expected to be installed on new PCs by the end of the year, according to IDC. In addition, over the next six months nearly 7m copies are expected to be sold as upgrades for PCs currently running Windows 95.

This would be a "slow start" for the latest version of Windows, in comparison to early sales of Windows 95, IDC analysts said.

However, this is largely because many businesses are expected to choose yet another version of Windows, called Windows NT 5, due next year.

Mr Peterson expected the new version of Windows to really take off in 2000, when Microsoft is expected to ship 66m copies, far surpassing the 53m shipments of Windows 95 in its third year.

EU commissioner criticises Israelis

By Judy Dempsey in Jerusalem

The European Commission said yesterday it was no longer possible to have a dialogue with Israel because Benjamin Netanyahu, the prime minister, was hindering regional economic co-operation.

The comments by Manuel Marin, commissioner in charge of relations with Mediterranean countries, were the most outspoken by any senior EU official since Mr Netanyahu was elected nearly two years ago.

They reflect growing frustration by the Commission over the way in which Israel has prevented the Palestinians from trading freely with the outside world while making their economy completely dependent on Israel.

Between 1993 and 1997, the EU allocated Ecu1.68bn ($1.88bn) to the Palestinian economy. "We cannot keep subsidising dependence or for that matter Israel's colonisation policies," said an EU diplomat.

Mr Marin told the Ha'Aretz daily newspaper that Mr Netanyahu was extracting all the benefits of relations with the EU while interfering with the economic progress of its neighbours.

Trade with the EU, Israel's largest trading partner, accounts for a third of Israel's total trade. Israel is the only country outside Europe participating in the EU's scientific and procurement programmes.

Mr Netanyahu's behaviour, added Mr Marin, was partly why the Commission decided to question how Israel was using its preferential trade accord with the EU when exporting products from the settlements and Gaza. The EU does not recognise Israel's post-1967 borders when it annexed the West Bank and Gaza.

Policy over trade with Palestinian areas is coming under fire from Brussels

A paper issued by the Commission earlier this month showed how Israel was exporting goods under a "Made in Israel" label to the EU without declaring the certificates of origin even though fruit and flowers were grown, picked and packed in Gaza or the Palestinian-controlled areas.

This allowed Israeli exporters to take advantage of trade benefits with the EU, while the Palestinians could do little else except accept the *status quo*.

Mr Marin said the Commission avoided this subject for fear of damaging the peace process and it did not want to make problems for Mr Netanyahu when he met Madeleine Albright, US secretary of state. "We gave [peace] a chance. But now we are acting," he said.

Israel's foreign ministry said Mr Marin's comments were "riddled with inaccuracies." Victor Harel, its deputy director for economic affairs, said they were "100 per cent political".

The issue will today dominate the Knesset's economic affairs committee when Jean Paul Jessé, EU ambassador to Israel, will defend the Commission.

Soft talk masks a harder line against high-tech piracy

Israel is being pressed by the US in its drive to crack down on intellectual property rights infringements, writes **Avi Machlis**

When Edward Walker, US ambassador to Israel, addressed a crowd of leading Israeli businessmen at an annual dinner last week, he made no mention of the stalled peace process. However, he had plenty to say about the country's business ethics.

In diplomatic language, Mr Walker urged Israel to crack down on intellectual property rights offenders. Behind the soft talk, the businessmen knew the US was serious. At least one large Israeli company has already been disqualified from a US government tender for intellectual property rights violations. In early May – and in far less diplomatic terms – the US trade representative upgraded Israel to its "priority watch list" for copyright offenders, especially in audio CD, video and software counterfeiting.

"Israel's copyright law is inadequate and antiquated, enforcement and penalties are ineffective," said the US trade representative's report. It accused Israel's parliament, the Knesset, of failing to "make good on promised legislative reforms" and lashed out at "the absence of serious attempts by Israel to rein in piracy of intellectual property."

The US embassy in Tel Aviv said yesterday: "Israel has become a software piracy haven and is rapidly expanding exports of pirated software."

The US estimates Israel's export-driven bootleg audio CD market cost its companies $92m in 1996. Rampant software piracy in the business sector, which cost software companies an estimated $77m in lost revenues in 1996, is a particular problem since Israeli companies are trying to integrate into the global economy.

According to the Business Software Alliance (BSA), the US-based industry lobby, nearly 70 per cent of all software installed on computers in Israeli businesses in 1996 was illegal. Israeli piracy is a small part of an international problem that BSA says cost software companies more than $11bn in 1996. In many Asian and East European emerging markets more than 90 per cent of all installed software is illegal.

Governments in these countries often turn a blind eye knowing that piracy actually helps cash-strapped companies grow, says Yanki Margalit, chief executive of Aladdin Knowledge Systems, an Israeli producer of software protection products. "But these days, when Israel is trying to build its position as a high-tech industry power, piracy clearly is damaging and hurts our image. We can't allow it to happen."

Indeed, Israel's booming high-tech sector exported about $4.8bn worth of goods last year, or 34 per cent of industrial exports, according to the Israel Export Institute. An advanced technology sector and per capita income of $17,000 is why BSA expects Israel to reduce piracy to the western European average rate of 43 per cent.

It will not be easy, even though BSA projects a decline in soon to be released 1997 figures. In addition to legislative reform and stricter enforcement, corporate culture must change. Some experts attribute the piracy epidemic to the isolation of Israel's corporate sector until the early 1990s, which fostered poor transparency.

Recent economic development and increased foreign investment has helped expose the problem. Some foreign investors were surprised to find that Israeli companies they were looking at had no budget for software. "Israel wants to be considered a developed country and wants preferential treatment for goods in the US and Europe," said Ami Fleischer, a BSA representative in Tel Aviv. "But we are not a developed country in terms of providing protection of intellectual property rights for foreign companies." In 1995, Israel exercised a "developing nations exception" option – along with 30 far less developed countries – when it signed the World Trade Organisation's Intellectual Property Rights agreement. This granted Israel five years to upgrade its copyright laws, as opposed to two years for developed countries.

Protection today is based on a 1911 British-mandate law. A draft bill has been under discussion for more than 10 years. Israel cannot combat many intellectual property violators without new legislation since "soft" piracy in the corporate sector is not a criminal offence.

BSA is lobbying to change the law, as part of its first big public campaign in Israel. There are already signs that the Knesset may be seriously considering pushing through legislation.

Software piracy

	Piracy rates (%)		
	1994	95	96
US	31	26	27
UK	42	38	34
Germany	49	42	36
France	53	51	44
Taiwan	72	70	66
Israel	78	75	69
China	97	96	96

Source: Business Software Alliance, Software Publishers Association

EU adopts controversial food labels

By Michael Smith in Brussels

European Union nations yesterday formally adopted controversial proposals on the labelling of genetically modified foods in spite of opposition from Denmark, Sweden and Italy.

Although final details of the scheme have yet to be negotiated, farm ministers approved measures which will make labelling mandatory on food shown to contain genetically modified maize and soya through DNA and protein testing.

Proposals by the European Commission, the EU's executive, to allow manufacturers to use "may contain" in some cases have been dropped. The rules will initially apply only to modified soya and maize, all of which is imported to the EU. However, it is expected they will set a precedent for other so-called "novel" foods coming on to the market.

Italy believes dropping "may contain" labels will cause problems for small and medium-sized enterprises with limited resources. They will have to foot the bill for carrying out DNA or protein testing or label their products as including genetically modified ingredients.

Along with Denmark and Sweden, Italy argued that the "may contain" labels would have been helpful for consumers. They were overruled by the 12 other EU countries which say the system they have devised is more transparent.

Henrik Dam Kristensen, Danish farm minister, said the Commission's proposal was better than the revised version but "but we have to go along with majority view. We will be pushing for as much labelling as possible."

EU countries have still to decide what to put on a list of products which will be exempted from testing because they contain only small amounts of genetically modified ingredients. They must also determine a threshold for the testing of genetically modified ingredients, below which foods will not have to be labelled.

Consumer and environmental groups have welcomed some of the changes made by the countries during the last week but say the final proposals remain deeply flawed.

Greenpeace, the environmental group, believes more than 90 per cent of genetically modified food will escape labelling. Along with Beuc, the European consumers' organisation, it believes DNA and protein testing is insufficient and has been pressing for a certification system which would require each manufacturer in the food chain to declare whether their product contains genetically modified ingredients.

US bid to calm internet fears

By Neil Buckley in Brussels

The US is set to publish revised proposals for an international, 15-member board to take charge of internet domain names, in an effort to counter charges that it is trying to impose American domination of the global computer network, a senior official said yesterday.

Ira Magaziner, White House senior policy adviser on internet issues, said Washington would publish a white paper on internet governance as soon as it had been approved by US lawyers – possibly this week.

The document is an updated version of a green paper on reform of internet governance published in February, taking into account a mass of comments and criticisms received by the US administration.

The US "discussion paper" was sharply criticised by the EU, the Australian government and other bodies for seeking to consolidate US control of the computer network, which now has 100m users worldwide.

It also angered veteran internet developers in the US, who have overseen the operation of the global network since its inception. Mr Magaziner, in Brussels for talks with the European Commission, told journalists yesterday it had always been the US intention that internet control should be international.

"I think some of the concerns that have been expressed by the EU are based on misunderstandings of what we proposed," he said.

Mr Magaziner said the US would propose a private, non-profitmaking body responsible for four functions: co-ordination of the internet "domain name" system; allocation of groups and numbers to regional number registrars; co-ordination of the "root servers" – computers that handle address inquiries; and protocols developed by the internet engineering taskforce.

There would be no "quota system" for international representation, but various groups, several of them international, would be asked to nominate directors.

"What we have suggested is that there should be nomination of the board from groups representing stakeholders," Mr Magaziner said. "This should be an internationally representative body."

Mr Magaziner hoped the new board could be operating by the end of September.

Tempering the people's thirst for revenge in Sierra Leone

Government's conciliatory approach to remaining rebels seems at odds with the mood of the public, writes **Michael Peel**

Outside the central court in Freetown, Sierra Leone, where alleged supporters of the former military junta have been on trial for treason, a banner advertises a play entitled "My Blood Cries for Revenge".

It is a common sentiment in Freetown these days. The junta inflicted such suffering during its nine months in power after a coup last May that its members and their fellow rebels can expect little magnanimity when they are brought to justice.

But the public mood seems at odds with the attitude of the government, which is deciding how best to try to end the conflict in rural areas between the remaining rebels and the West African peace keeping force known as Ecomog. The government, restored to power by Ecomog, favours a conciliatory approach, acknowledging that many of those fighting alongside the rebels are poor and deprived young people who joined the anti-government forces in a desperate attempt to improve their situation.

There is a clear difference between the planned terror inflicted by the junta and other rebel commanders and the mayhem caused by the fighters now at large in the north and east of the country. People tell of the missions of destruction which rebel leaders used to carry out: Operation Burn House, a series of arson attacks; Operation Pay Yourself, a programme of looting; and Operation No Living Thing, an attempt to exterminate entire communities.

Many people quote a favoured slogan of the AFRC, the junta's executive: "No AFRC, no Sierra Leone." In its last days in power, the AFRC placed heavy artillery on the hills around Freetown, ready to fire on the city as soon as Ecomog tried to intervene.

Although the AFRC committed itself to conceding power, few think it had any intention of doing so. Instead, it tried to shore up its position through repression of those who demonstrated their opposition to its rule by refusing to work.

Glenn Taylor, a student, says some of his colleagues were beaten and imprisoned by rebels for participating in demonstrations against the junta. "At that time we were really hanging on for our lives," he says.

By contrast, there seems to be little pattern to the atrocities committed by armed bands in upcountry areas. At the entrance to the Connaught hospital in Freetown, young men turn the pages of newspapers with one hand, holding down the other leaves with the stumps left after indiscriminate attacks by fighters armed with machetes.

The hospital says it has recently seen more than 100 cases of mutilation, some of them carried out by fighters under the influence of cocaine. Cole Koroma, a Freetown trader, tells how attackers cut off three of his fingers and one of his ears, slicing the other in half.

Others tell of horrific attacks on children and pregnant women. One 11-year-old boy at the Connaught shows stab wounds inflicted by another child of his own age.

The government says attacks of this type are conducted at random by groups who have no contact with the junta commanders who are still at large. "It's not an organised structure any more," says Sheka Mansaray, national security adviser. He sees the violence as the manifestation of serious social problems rather than as an attempt to force the introduction of an alternative political programme. "There is no attachment to an ideology."

Mr Mansaray says many fighters were coerced into joining the anti-government forces. About 8,000 "rebels" have already surrendered to Ecomog.

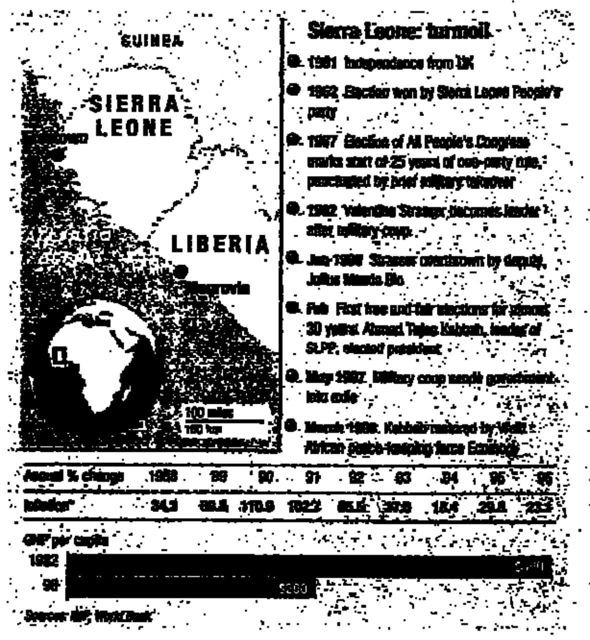
The remaining groups are isolated from one another, and Ecomog controls between 80 and 90 per cent of the population. It will take the peacekeeping force three months at most to secure total control.

The government will try to capitalise on the re-establishment of order by addressing the poverty and lack of opportunity which it sees as a driving force behind the actions of many of the rebels. Sierra Leone is one of the world's poorest countries, and the economy has suffered stagnation and recession for well over a decade.

The education system has been neglected, and the adult literacy rate was an estimated 24 per cent in 1992. "We are committed to re-integrating everybody who has been a combatant," says Mr Mansaray. "We will give training to those who need training."

These policies may well provoke a hostile public reaction. People are proud of the democracy they established through elections in 1996 and are unforgiving of a junta which denied them self-determination.

Their understandable fury has obscured the distinction between the junta's systematic oppression and the horrifying actions of young people who appear to be reacting violently against a system that seems to offer them little hope of prosperity. As Michael Freeman, a social worker, puts it: "These people must be destroyed. They deserve worse than that."



MIDEAST PEACE NETANYAHU CRITICISED

Arafat calls for Arab summit talks

By Judy Dempsey in Jerusalem and Mark Huband in Cairo

Yassir Arafat, president of the Palestinian Authority, yesterday called for an Arab summit amid a growing consensus among the region's leaders that the peace process will not advance under Benjamin Netanyahu, the Israeli prime minister.

Mr Arafat made his plea in Cairo as criticism grew of Israel's policies, most notably from the European Union, China and Jordan, Israel's closest Arab ally.

In Brussels, Manuel Marin, EU commissioner in charge of Mediterranean countries, said it was impossible to have a political dialogue with Mr Netanyahu.

In Beijing, Zhu Rongji, China's prime minister, said China supported the Palestinian right to an independent homeland.

According to the official Xinhua news agency, Mr Zhu told Mr Netanyahu that as the Jewish people gained sympathy to have a country, "the efforts of the Palestinian people...to establish an independent state" had also won the support of the international community.

Mr Netanyahu, who is on his first official visit to China as prime minister, is opposed to a Palestinian state. Mr Arafat has repeatedly said he would unilaterally declare independence next May when the five-year interim period for self-rule in Palestinian areas expires.

In the Jordanian capital of Amman, Amr Moussa, Egypt's foreign minister, told Jawad Anani, his Jordanian counterpart, the peace process did not have much of a chance "in view of Israeli policies."

Earlier in the week, Mr Anani told Israel Radio that King Hussein of Jordan could no longer talk to or deal with Mr Netanyahu. Jordan signed a peace treaty with Israel in 1994 despite strong opposition from Islamists. Sheikh Ahmed Yassin, the spiritual founder of Hamas, the Islamic Resistance Movement who was freed from an Israeli jail last September, was due to visit Jordan yesterday. The authorities denied him entry, saying they had not had enough notice.

Arab leaders have been considering the possibility of convening a summit for several months. The meeting would be a watershed in the peace process since it would show how little normalisation has taken place since the first Oslo accord between Israel and the Palestinians was signed in 1993.

The region's leaders would, however, be pressured into drawing up a strategy for continuing the process against a background of an ineffectual Israeli-Palestinian negotiating relationship. Syria, Saudi Arabia and Egypt would work closely to formulate a joint approach for such a strategy and would seek approval at a summit for their co-ordination of Arab policy.

The main consideration will be whether to continue the guiding principles of a three-track policy intended to solve Israel's conflicts with the Palestinians, Syria and Lebanon.

NEWS DIGEST

UN SANCTIONS

Security Council prepares for crucial Iraq review

Richard Butler, the chief UN weapons inspector, next week will unveil secret photographs and intelligence material to the Security Council to show what remains of Iraq's weapons of mass destruction. The Australian diplomat said the UN commission charged with dismantling Iraq's arsenal of deadly weapons, Unscom, would give a "road map", outlining the steps Baghdad must take to win the lifting of sanctions by October.

Tomorrow at UN headquarters in New York, Mr Butler will meet an Iraqi delegation led by Mohammed al Sahaf, foreign minister, in what Unscom officials said would be a test of Baghdad's willingness to provide answers to unresolved questions about its disarmament. Speaking to reporters yesterday in Australia, Mr Butler appeared to promise a more open approach towards Baghdad. "I now propose that we share as much as we can of what we know with both the Council and Iraq, we design a road map..."

The UN imposed sanctions including an oil embargo after Iraq invaded Kuwait in August 1990. Russia, France and China have been pressing for the easing of sanctions while the US and Britain, the other permanent council members, have insisted sanctions will remain in force until the UN certifies a clean bill of health for Iraq.
Laura Silber, UN, New York

ALGERIAN VIOLENCE

Algiers bomb kills seven

A bomb exploded in a market in south-eastern Algeria yesterday, leaving seven people dead and eight wounded. The blast in the town of Khemis Miliana, about 100km from Algiers, followed an explosion last Friday in a market in an Algiers suburb, which killed 16 people and wounded more than 60.

The Algiers bomb came after several months of relative respite in the capital. Bombs in markets and cafes have been a frequent means of spreading terror in Algeria, but they have been overshadowed in the past year by massacres of civilians in villages.

● French police yesterday arrested more than 50 suspected Islamists during raids in various cities, in a police sweep that is part of a co-ordinated effort by five European countries to deter possible terrorist attacks by Algerian Islamist extremists during the World Cup.

The Paris operation coincided with raids in Belgium, Germany, Italy and Switzerland. The operation was the result of months of investigations into Algerian extremists, the French interior ministry said.

Nine people were arrested in Italy but no arrested were reported as of yesterday in the other European capitals.
Roula Khalaf, London

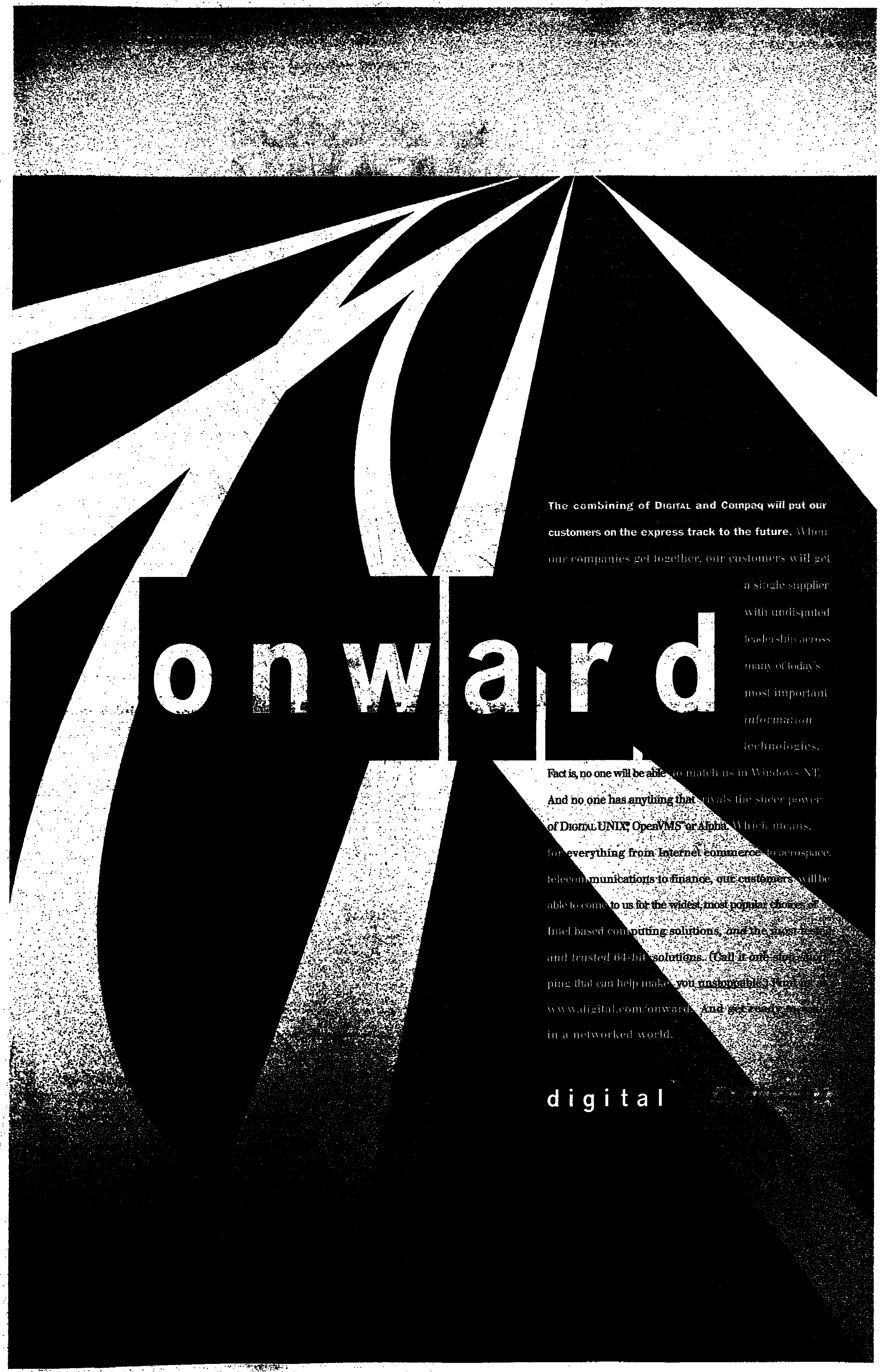
LEBANESE MUNICIPAL ELECTIONS

Opposition make gains

Lebanese opposition groups made important gains in the first phase of Lebanon's municipal elections held last Sunday in Mount Lebanon. Hizbollah, the Shia group opposed to the government, won a landslide victory in the Beirut suburbs, overtaking the rival Amal movement, which was allied with candidates backed by Rafiq Hariri, the prime minister.

The first local poll in 35 years is being held over four consecutive Sundays. Voter turnout was 70 per cent in Mount Lebanon, according to the interior ministry.

Maronite Christian groups opposed to the Syrian presence took part in elections for the first time since the end of the civil war in 1991 and Christians turned out heavily to vote. The most notable victory was that of Dori Chamoun, leader of the Christian National Liberal Party. His party won in Deir el-Kamar, a Maronite town in the Chouf region. Mr Chamoun achieved his victory partly through an alliance with Walid Jumblatt, the Druze leader, in a move which many hope will lead to a return of Christian refugees to the Chouf mountains.
Roula Khalaf


onward
The combining of DIGITAL and Compaq will put our customers on the express track to the future. When our companies get together, our customers will get a single supplier with undisputed leadership across many of today's most important information technologies.
Fact is, no one will be able to match us in Windows NT. And no one has anything that rivals the sheer power of DIGITAL UNIX, OpenVMS or Alpha. Which means, for everything from Internet commerce to aerospace, telecommunications to finance, our customers will be able to come to us for the widest, most popular choices of Intel based computing solutions, and the most
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JAPANESE STATE VISIT AKIHITO'S SPEECH OF 'SORROW AND PAIN' STOPS SHORT OF APOLOGY TO FORMER PRISONERS OF WAR

Emperor jeered by survivors of camps

By Andrew Parker and Gautam Malkani

Emperor Akihito of Japan spoke in London last night of the "deep sorrow and pain" he felt for all those who suffered in the second world war two, in a speech which stopped short of offering an apology to the British survivors of Japanese labour camps.

Earlier, the emperor was booed and jeered by hundreds of survivors as he travelled by royal carriage with Queen Elizabeth towards Buckingham palace at the start of his week-long state visit to the UK.

In a calculated insult, the British second world war veterans turned their backs on the emperor. They are demanding a "full" apology and compensation from the Japanese government. There was another protest when the emperor laid a wreath at the tomb of the unknown soldier inside Westminster Abbey. The emperor said during a state banquet at Buckingham palace last night that he was saddened that Britain's relationship with Japan had been marred by the war.

He added: "The empress and I can never forget the many kinds of suffering so many people have undergone because of that war. At the thought of the scars of war that they bear, our hearts are filled with deep sorrow and pain.

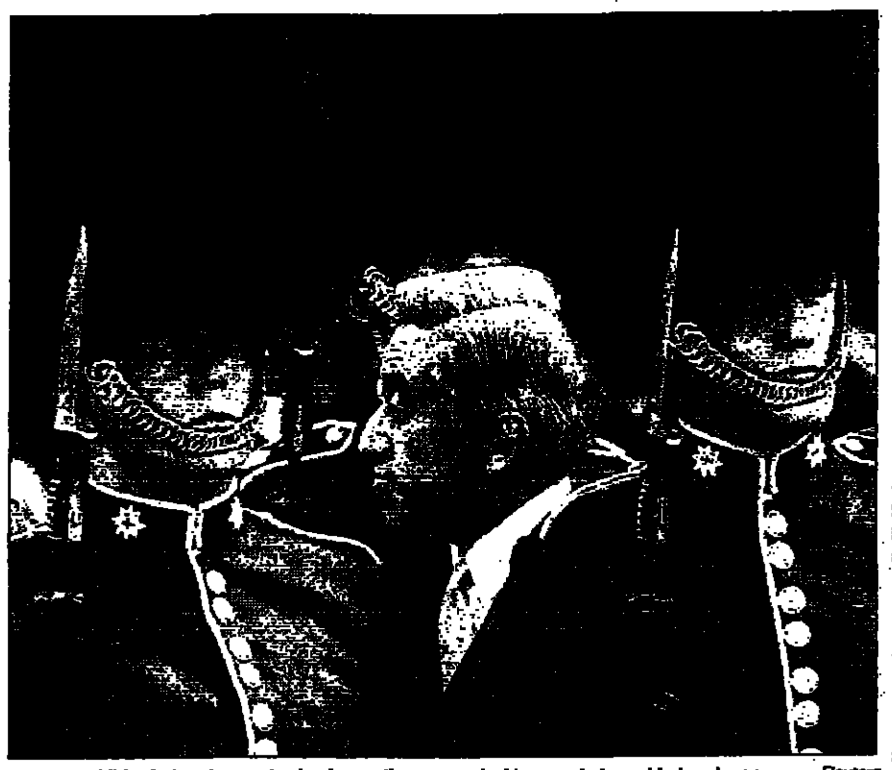
"All through our visit here, this thought will never leave our minds. We sincerely hope that such a history will never be repeated between our two nations." The emperor is prevented by Japan's constitution from making a formal apology.

The emperor's speech contrasted sharply with another he made during a visit to China in 1992. Then he admitted Japan had inflicted "great sufferings" on the Chinese people during world war two, adding: "I deeply deplore this."

Queen Elizabeth, who had presented the emperor with the order of the garter, said yesterday that while memories of the war still caused "pain", they had also acted as a spur to reconciliation. Like the emperor, the queen celebrated today's trade links between Britain and Japan.

Jack Caplan, 83, a member of the Japanese Labour Camp Survivors Association who burned a Japanese flag in the street leading to the palace, said it was "shameful" to see the emperor honoured by the queen. He added: "The memories of watching my friends being beheaded and watching them squirm on the ground in my camp in Thailand is why I'm here. I had to do it for all those people who died."

Tony Blair, the UK prime minister, said the issue of compensation for former British prisoners of war in Japanese labour camps had been settled by a 1951 treaty. Asked about calls for a "full" apology by the Japanese government, the prime minister said an apology given in January by Ryutaro Hashimoto, the Japanese prime minister, and the words of the emperor, represented a "sincere apology".



Emperor Akihito in London yesterday inspecting a guard of honour in bearskin headgear Reuters

Mr Blair told Japanese television that Japan should realise there was still "strong feeling" among the veterans about the "appalling hardship and terrible suffering they endured". However he added: "It is important, whilst never forgetting the past, to have a strong and good relationship with modern Japan."

● Emperor Akihito's visit was quietly ignored in Japan, where the media were more concerned about the surprise marriage of a pop star and Japan's chances in the World Cup, writes Michiyo Nakamoto in Tokyo.

In line with dutiful newspaper coverage of the trip to Europe, NHK, the public broadcasting station, showed the emperor and empress, on the 9 o'clock news, riding through London with Queen Elizabeth. Straightforward reports were also provided of the unhappiness of former UK prisoners of war and internees.

Business at home in land of dragons, mountains and song

Over 25 years, Wales has welcomed 54 of Japan's companies, **Juliette Jowit** writes

Once a month, a group of Japanese executives in Tokyo gather for the meeting of Clwb Hiraeth, Welsh for "club" and "yearning for your country". The members of this exclusive group used to be based in Wales.

The society is one of several examples of the ties between two lands of dragons, mountains and song. The Japanese were among the first overseas investors in Wales: Takiron, the PVC sheeting company, opened in 1973, followed soon after by Sony, which has since expanded eight times.

Twenty-five years on, there are 54 Japanese companies in Wales, creating 17,000 jobs, and bringing with them more than 1,200 Japanese staff and their families. After £1.5bn ($2.5bn) of investment by all the companies, Wales is the largest Japanese consumer electronics manufacturing centre in Europe. Alongside Sony are Brother, Hitachi, Matsushita (Panasonic) and Sharp.

The Welsh flag: red dragon on a green and white background

The Wales-Japan Club is a local association of companies and their Japanese staff funded by the companies and the Japanese government. The club takes the lead in the Japanese community and runs the Japanese Saturday school in Cardiff where more than 100 Japanese children aged from seven to 15 are coached in Japanese language and extra mathematics.

"It is important because when the children return to Japan, they must be able to slot back into the system there at the right level," says Tokomo Boyd, the school's headmistress.

Apart from these four hours a week, Japanese children attend local state schools in Wales, and there is a host of programmes by the Wales-Japan club to promote cross-community links. There are musical and artistic exchanges and exhibitions, education trips for Welsh pupils and teachers, and school twinning schemes. Independently, a Japanese restaurant and even a traditional hotel have set up in Cardiff, the principal city of Wales.

"Working together with local people, this is the key to making a good life with local people," says Nobuo Baba, club chairman and a director of Aiwa's operation near Newport, south Wales. The task is made easier by common features of the two countries, says Mr Baba, who cites the mountainous countryside, the seasons (in spite of winter cold), and friendly locals.

One theory about the success of Japanese investment is the "follow the leader" syndrome, whereby many companies have come to Wales to be near suppliers and customers. Another is that a shared taste for poetry, golf and the symbolism of the dragon have nurtured a natural empathy.

Internet service to follow cable deal

By Christopher Price in London

A new internet service for the UK will be launched this year following agreement yesterday between @Home Network of the US and ComTel, the UK cable offshoot of KPN, the Dutch telecommunications group.

The US company offers fast access to the internet with unlimited usage for a flat fee, without incurring telephone costs. The service also includes an online news service, compact disc audio, computer games and software downloading.

John O'Farrel, a senior vice-president with @Home, said the service could provide the breakthrough in internet penetration in the UK, which has been held back in part by high telephone charges. Only about 5 per cent of UK homes – around 1.2m – have internet access, although among companies the figure is closer to 50 per cent.

However, household penetration in the US is more than 20 per cent and in business 57 per cent.

Alex Zwissler, director of business development at ComTel, said the service would probably cost between £30 ($50) and £40 a month for UK residential use, with no further call or service charges. Comtel serves the Thames Valley area of southern England to the west of London.

The proposed rates sharply undercut current unlimited usage services. Demon Internet, for example, one of the UK's biggest internet providers, charges £500 a month for a dedicated leased internet line.

ComTel's cable connection to a home or business contains two lines: one each for the television and telephone. The @Home service piggy-backs on the television line, allowing the service to be open at all times without incurring telephone charges.

In addition, the US group uses local data centres which hold the most popular online services customers use, thereby often bypassing the need for subscribers to go on to the internet.

Mr O'Farrel said talks with other UK cable operators were continuing. In the US and Canada, @Home has struck deals with nine cable companies covering more than half of the north American market. It currently has around 100,000 subscribers.

Names vow to battle 'for the soul' of Lloyd's

By Christopher Adams, Insurance Correspondent

Lloyd's Names yesterday condemned moves within the insurance market to accelerate reform. An influential group representing thousands of the market's independent capital providers has attacked the Lloyd's chief executive and pledge a crusade against efforts to drive Names out of the market.

The latest anger over the future of capital provision comes ahead of the insurance market's annual meeting next month.

Lloyd's has been considering whether it should change the way it is run to speed its transformation into a business backed by permanent capital. Insurance underwriters, in particular, have voiced concerns that the system under which they are required to raise fresh funds each year, the "annual venture", is expensive and unwieldy.

"This is black propaganda," Sir David Berriman, chairman of the Association of Lloyd's Members said yesterday.

The association has written to 16,000 Names urging them to take a stand against any change that spelled the end of their participation at Lloyd's. The total includes Names who have ceased active underwriting. "Names should fight their corner and not be suborned to leave," he said. "This is a battle for the soul of Lloyd's."

Sir David dispute claims that the annual venture imposed an unacceptable cost burden. He criticised Ron Sandler, the chief executive of Lloyd's, for making a speech to several hundred Names last month, expressing a "personal" view that the annual venture should be scrapped. He said Mr Sandler's action breached principles governing the collective responsibility of Lloyd's ruling council.

His comments coincided with recommendations from an internal working group at Lloyd's – charged with safeguarding members' interests – that a review of the annual venture should be accompanied by an independent study of its costs.

Private equity capital and the annual venture contributed to an underwriting culture at Lloyd's that rewarded talented entrepreneurs, said Sir David. These features also maintained the market's ability to write a wide range of business by encouraging the free flow of funds. If Lloyd's were backed wholly by permanent paid-up capital, it would be less flexible and less efficient.

While numbers of active Names have been falling – from a peak of 34,000 10 years ago to 6,800 now – Sir David said many of those who remained were keen to continue trading at Lloyd's as private individuals. Abolition of the annual venture would effectively make it impossible for them to do so.

Secretive trip for Heathrow Express

By Kevin Done, East Europe Correspondent, returning from Budapest

Heathrow, the world's busiest international airport, finally has a direct express above-ground rail link to the centre of London, but it's not telling anyone yet.

For jaded travellers used to dragging themselves exhausted off the Underground railway, or for business executives caught in a taxi in a traffic jam with the minutes ticking by, relief has arrived.

A sleek, comfortable express train in cool grey and blue livery is running every 15 minutes from two stations at Heathrow at Terminal 4 and at Terminals 1, 2 and 3, direct, non-stop to Paddington station in central London.

The train is run by BAA, the operator of London's airports. The journey itself takes barely 15 minutes; on a good day, the Underground takes an hour. Officially, the Heathrow Express is still undergoing trials and will be opened by Tony Blair, the prime minister, on June 23. The service is not yet being advertised, but it started quietly on Monday.

For the moment it costs only £5 ($8.30). The price doubles to £10 once Mr Blair has cut the ribbon. The bad news is that at either end of the track, not much has changed. At Terminal 1 yesterday morning there were few signs telling you how to actually find the trains. One lift was found, with a red light flashing "lift out of service". Not true. Yes, the light was flashing, but the lift was not out of order. Just testing.

On the platform underneath the airport, intrepid pioneers shared a sense of wonderment. Could the centre of London be only 15 minutes away?

Well, at least Paddington was only 15 minutes away. Elsewhere in central London? Not so easy. On the Underground links, it was business as usual.

The Underground ticket office by the Circle Line at Paddington is closed. Come back in March 1999, says the notice. There was no escalator to the Bakerloo line. Ditto, early 1999.

But you cannot have it all at once. Commercial flights to Heathrow started in 1946. It was 31 years before the Underground got there, and a further 21 years to get the above-ground rail link.

BAA results, Page 22

NEWS DIGEST

CAPITAL GAINS

Tax planners demand year's delay in reforms

Tax planners launched a strong attack on the government's new capital gains tax regime yesterday and called for a year's delay for consultation and simplification. The Institute of Chartered Accountants joined the Chartered Institute of Taxation in warning that new rules have increased the complexity of the tax and need revising.

Robert Maas, chairman of the technical committee of the institute's tax faculty, said: "These changes have not been properly thought through. For all the faults of the current system, we believe it would be better to make no change than to introduce this hybrid scheme."

Top accountants, including senior partners at Arthur Andersen, Deloitte & Touche and Price Waterhouse, warned after the Budget that the changes would be an "administrative nightmare" for taxpayers. **James Mackintosh, London**

WESTDEUTSCHE LANDESBANK UNIT

Thomas Cook to sell timeshare

Thomas Cook, the travel agent owned by Germany's Westdeutsche Landesbank, is to start selling timeshare holidays with a pledge to avoid the aggressive sales tactics which have dogged the business. The company will sell "four-star" properties and above built by large developers such as Marriott, the US-owned hotel chain, and De Vere, a subsidiary of Greenalls, the UK pubs and hotels group.

Timeshare in the UK has had a bad image because of operators' hard-sell tactics and poor quality resorts. But Andrew Chapman, manager of Thomas Cook's new timeshare division, said it would abide by EU regulations on selling timeshares, offer a 14-day cooling-off period, take no payments in resorts and offer customers documentation in their own language. It will initially concentrate on Spain, Portugal, the Balearic Islands, the Canary Islands, Florida, New York and the UK. "We are going to sweep this industry clean," said Mr Chapman. **John Willman, London**

SHARE PRICE SURVEY

'Fair value' questioned

Almost all finance directors believe their shares have been undervalued in the past year, according to a survey of UK listed companies released yesterday by Hemmington Scott, the financial information provider. More than a third of companies said their share price had differed from "fair value" for more than six months, and 84 per cent said the price had been too high or too low at some point.

Medium-sized companies were more worried than large and small-cap stocks. Helen Kay, publisher at Hemmington Scott, which surveyed 166 companies, said few thought they were overvalued. Peter Scott, chairman, pointed to the general desire to achieve fair value. "Clearly there is something amiss if there is such a disparity between objectives and perceived achievement," he said. **James Mackintosh, London**

ROYAL AUTOMOBILE CLUB PAYOUT

Ex-members apply to rejoin

More than 500 former members have applied to rejoin the Royal Automobile Club since it announced the sale of its roadside rescue service last month. If successful, they would be entitled to a payout – estimated to be worth more than £30,000 ($50,100) a member – when the RAC sells the rescue service to Cendant of the US for £450m later this year.

The ex-members are citing a provision in the motoring organisation's rules which they claim offers automatic re-admission to those who apply within three years of resigning. However, the RAC, which imposed a moratorium on new members in March to prevent carpetbagging, has warned applicants they are "unlikely to benefit financially" from their decision to rejoin. It does not plan to process their applications until the sale has gone though and the money distributed. Overseas members, now excluded from the payout, have threatened legal action to force the RAC to extend payments to them. **Jonathan Ford, London**

UNIT TRUSTS

Sales hit record $8.8bn

Fund managers saw record unit trust sales of £5.26bn ($8.78bn) before redemptions in April as the end-of-tax-year rush to buy personal equity plans continued for longer than expected and institutions became net buyers again.

The figures, compiled by the trade body Autif, were increased by a one-off gain of £702m as Threadneedle, a fund manager,transferred its Luxembourg-based funds to a London open-ended investment company (oeic), the successor to unit trusts.

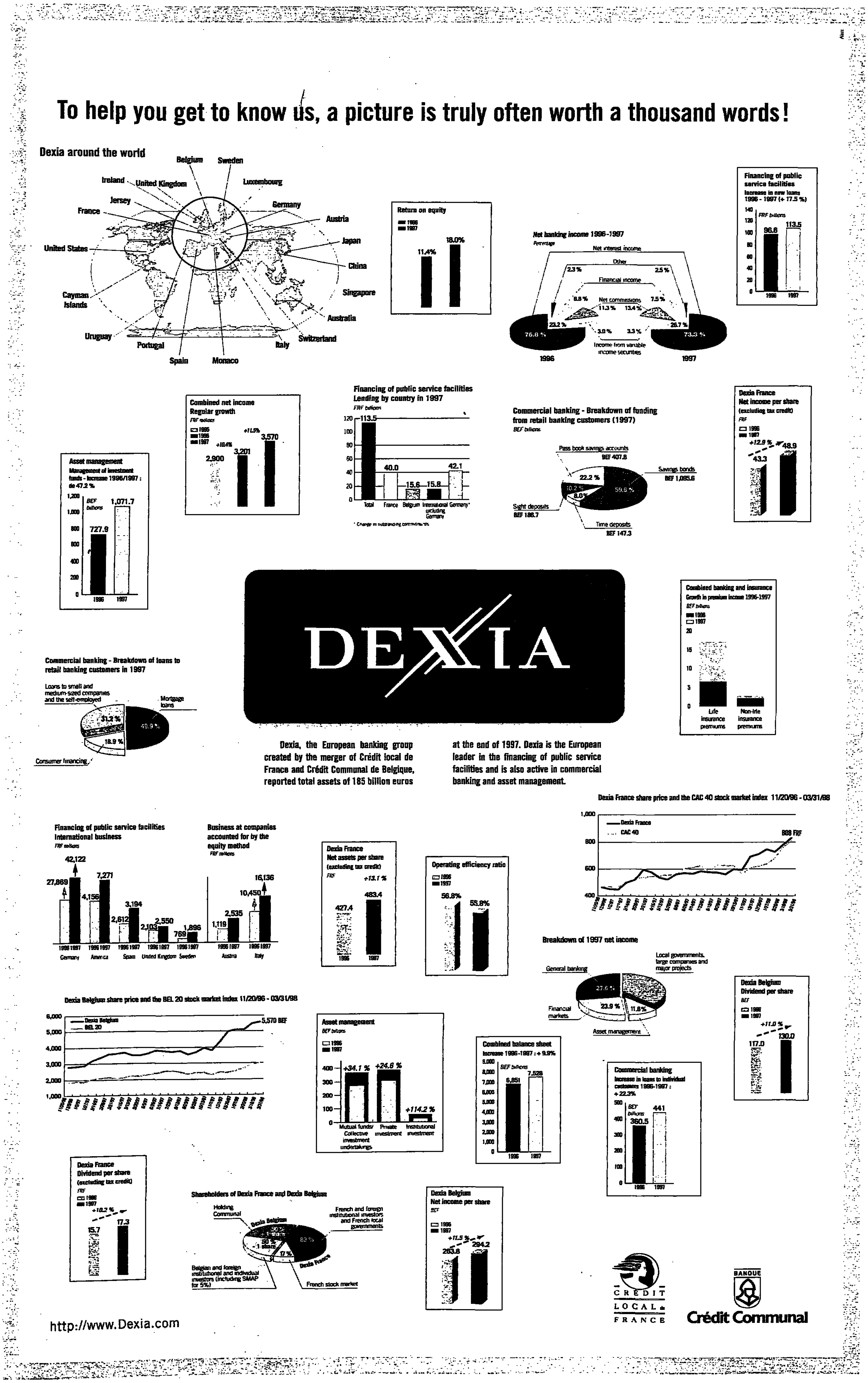
Net retail sales (after redemptions) of unit trusts through Peps hit a new high of £1.7bn, with more than a third of this in the first five days – before the tax year ended. Sales of unit trusts overall were up 4 per cent on April 1997 to £2.8bn. Philip Warland, director general of Autif, said that so long as there was no market crash, unit trusts should enjoy "bonanza" sales "as investors look to take advantage of their Pep allowance". **James Mackintosh, London**

PRICE-FIXING ABOLITION

Costs 'unlikely to drop'

The abolition of price-fixing on electrical goods will not lead to a sharp drop in the cost of such items, warns a report by Verdict, the retail consultancy. The report claims the price uniformity of the electricals market is due not to a cartel, but to severe competition which forces retailers to cut prices to the bone.

The government last week ruled that from September the practice by manufacturers of recommending prices to retailers would become illegal. **Peggy Hollinger, London**


To help you get to know us, a picture is truly often worth a thousand words!
Dexia around the world
Belgium
Sweden
Ireland
United Kingdom
Luxembourg
Jersey
Germany
France
Austria
United States
Japan
China
Singapore
Cayman Islands
Australia
Uruguay
Switzerland
Portugal
Italy
Spain
Monaco
Return on equity
11.4%
18.0%
Net banking income 1996-1997
Net interest income
Other
Financial income
Net commissions
Income from variable income securities
1996
1997
Financing of public service facilities
113.5
96.6
Asset management
727.9
1,071.7
Combined net income
Regular growth
2,900
3,201
3,570
Financing of public service facilities
Lending by country in 1997
113.5
40.0
15.6
15.8
42.1
Total
France
Belgium
International
Germany
Commercial banking - Breakdown of funding from retail banking customers (1997)
Pass book savings accounts
Savings bonds
Sight deposits
Time deposits
Dexia France
Net income per share
43.3
48.9
DEXIA
Combined banking and insurance
Life insurance premiums
Non-life insurance premiums
Commercial banking - Breakdown of loans to retail banking customers in 1997
Mortgage loans
Consumer financing
Dexia, the European banking group created by the merger of Crédit local de France and Crédit Communal de Belgique, reported total assets of 185 billion euros at the end of 1997. Dexia is the European leader in the financing of public service facilities and is also active in commercial banking and asset management.
Dexia France share price and the CAC 40 stock market index 11/20/96 - 03/31/98
Dexia France
CAC 40
Financing of public service facilities
International business
Business at companies accounted for by the equity method
Germany
America
Spain
United Kingdom
Sweden
Austria
Italy
Dexia France
Net assets per share
427.4
483.4
Operating efficiency ratio
56.8%
55.8%
Breakdown of 1997 net income
General banking
Financial markets
Asset management
Dexia Belgium share price and the BEL 20 stock market index 11/20/96 - 03/31/98
Dexia Belgium
BEL 20
Asset management
Mutual funds/ Collective investment undertakings
Private investment
Institutional investment
Combined balance sheet
6,851
7,528
Commercial banking
360.5
441
Dexia Belgium
Dividend per share
117.0
130.0
Dexia France
Dividend per share
15.7
17.3
Shareholders of Dexia France and Dexia Belgium
Dexia Belgium
Net income per share
263.8
294.2
http://www.Dexia.com
CREDIT LOCAL de FRANCE
BANQUE
Crédit Communal

INFORMATION TECHNOLOGY ELECTRONIC COMMERCE

Tricks of the cyber trade

Online retailers must increase investment in technology and learn to use marketing knowhow if they are to turn the millions of internet users into customers, says **Louise Kehoe**

For all the hoopla over electronic commerce, very few cyber merchants are turning a profit. As the novelty of online shops begins to wear off, retailers face the tough question of how to turn millions of users of internet browsers into buyers.

For a small cadre of companies, web profits are already real and growing. Dell Computer sells $5m worth of personal computers a day via its web sites. Books, software and compact discs are also big sellers on the web.

Yet for most web stores, profits are elusive. Costs, and in particular marketing expenses, are rising faster than sales income. Moreover, this situation is unlikely to change in the near future, despite forecasts of large increases in internet commerce revenues.

"Over the next three years, most [online] retailers will forego current profits and increase spending on promotion, technology, partnerships and staffing," say analysts at Forrester Research in a study of online retail strategies.

The first challenge facing online retailers is to draw internet users to their web site – "driving traffic" as it is called in web jargon. This is typically achieved through a combination of traditional marketing methods and "cyber tricks".

Advertising a web site – with banner adverts on other web sites and in print or television media – has become an essential and expensive part of e-commerce. On billboards and TV commercials, the "www" internet address is now commonplace.

This reflects the growing recognition that the internet can seldom be the only medium through which a retailer reaches customers. "The web channel is not an island," says Martha Bennett of Giga Information Group, an IT market research company. "It needs to be considered in relation to other components of the marketing machine."

However, there are new ways of promoting trade on the internet that can make or break the profit potential of an e-commerce venture.

One of the "tricks" is to ensure that a web site gets top billing in web searches. Of the hundreds of florists on the internet, for example, the top few that are listed when a user consults a search engine such as AltaVista or Excite will probably do more business.

There are web site marketers who make a science of how to get good rankings on search engines. Inevitably, a trade has developed in their "secrets". However, some automated search engines are easier to fool than others and frequent updates undermine the efforts of those who try to trick them.

A more reliable method of drawing potential customers to an e-commerce web site is to establish links on busy or related sites. Online retailers pay millions of dollars, and often a share of their revenues, to be featured on online services such as America Online and "portal" web sites such as *Yahoo.com* that get millions of visitors a day. Similar deals are being struck between online stores and specialist web sites. Web sites with book reviews may carry links to a bookseller such as *Amazon.com*, for example.

Yet getting "traffic" to a web site is only the first step. Persuading visitors to part with money is an even bigger challenge. On average, only 3 per cent of visitors to a web shop make a purchase, according to the Forrester study.

e-question

'How can e-commerce operators make their web sites profitable?'

Concerns about credit card security remain the biggest barrier to online sales. "Our customers tell us they're worried about credit card safety. I don't think the fear is justified. But if our customers are scared, we have to respond," a seller of clothing told the researchers.

To alleviate these fears, online stores have adopted security measures such as encrypting transactions and using firewalls to protect customer data stored on their computers. These add to the complexity and costs of e-commerce, but have become standard elements of online retailing.

Web site design is another important factor. Early e-commerce sites were little more than product lists with a few graphics. Consumers now expect a lot more.

Online retailers are creating new ways of displaying their wares to encourage purchases. Clothing merchants such as The Gap provide interactive models that show off their clothes. Car sellers enable customers to virtually "kick the tyres" with internal and external views of the car.

The next stage is to encourage customers to return and make more purchases. So called loyalty programmes, modelled on airlines' frequent flier programmes, are beginning to appear on the web. E-commerce sites should also take advantage of the data they gather to create a relationship with customers, says John Blower of Internet Business Network. Too often, he suggests, businesses have web sites because they think they should, not because they believe in the medium.

The best online stores use e-mail to solidify a relationship with their customers. It may be a follow up message thanking a customer for his business or a regular update on new products. E-mail gives online retailers a way to communicate directly with customers and bring them back to buy more.

The e-commerce market is far from mature but already the pioneers are laying claim to their territory. This raises the hurdle – and the costs – for new entrants.

The battle for market share in e-commerce will require "deep pockets and patient investors", says Forrester. In future it may also require sophistication in retailing techniques as well as the technological acumen of e-commerce pioneers.

This article is the second in a weekly series

INFORMATION TECHNOLOGY BRIEFS

Talk to your television and surf the Net

Digital television will soon enable viewers to surf the Net as easily as changing channels, but only if set-top boxes are straightforward to use – some people, after all, still find it difficult to programme a video recorder.

Microsoft is developing a generation of voice interactive set-top boxes for digital TVs using technologies developed by Lernout & Hauspie, the Belgian linguistics software company, and Creator, based in Israel.

Microsoft and Lernout & Hauspie are developing a chipset that enables users to select channels, call up web pages and download information and video from the internet by talking into a microphone.

Jo Lernout, co-chairman of Lernout & Hauspie, says: "The new set-tops will be using the Windows CE [operating system], which already runs our speech technology." He adds that Creator is providing a chipset that "captures your voice and transforms it into a digital signal and uses a radio frequency to send it to the set-top box".

Mr Lernout says these products may be ready to ship before 2000. "I could be relaxing in front of my TV with a little microphone box on the table in front of me. I could simply say, 'Can you give me more details on a player in the soccer game?' and the TV could access the relevant web site."

Microsoft part owns Lernout & Hauspie and sees its voice recognition software as the key to enabling Windows CE to be installed in other products, including in-car PCs. "We see the voice command being integrated into the operating system as soon as possible, just as graphical user interfaces have been," says Bernard Vergnes, president of Microsoft Europe.

Other suggestions for the digital television interface have included infra-red keyboards and an "intelligent" key-pad or remote control.

Lernout & Hauspie: www.lhs.com

Tony Glover

IN BRIEF

Quicker way to search and analyse video

Manually reviewing video material is expensive in terms of time and people. But Excalibur Technologies, a Washington DC-based knowledge retrieval specialist, says its video analysis engine will transform the way video is searched by automating much of the process.

Unlike existing video analysis software, Excalibur's product allows the programmer to define an event that the software recognises. This can be used to trigger other actions such as capturing a thumbnail image of individual video frames within an application.

The company believes its technology, available in several versions including a developer's kit for $249 (£149), will radically improve the use of video in established fields such as news and entertainment, public safety, private security, intelligence gathering and law.

www.excalib.com

Smarter still

For years, smartcards have carried portable information but their complex operating systems and external interfaces have limited their integration into traditional IT infrastructures.

If they are to achieve their full potential as business-card sized portable PCs, they need to be able to interact with traditional relational databases.

In order to deliver this Gemplus, the French smartcard market leader, has developed the industry first smartcard incorporating the industry standard ODBC (open database connectivity) application programmer's interface. Gemplus says the new technology, called PocketBase, "will enable the development of identity, loyalty, government, transportation, IT and other smartcard-based solutions capable of performing transactions with large databases of information".

PocketBase uses a subset of the industry standard structured query language, the most widely used language in database systems, and supports common database operations such as create, select, delete, update, commit and rollback. The developer's kit is due expected to be ready for shipment in late summer.

www.gemplus.com

Paul Taylor

INFORMATION TECHNOLOGY VIEWPOINT

Demi-monde of IT progress

Never mind Gordon Moore's Law. For users, real progress is more like Demi Moore's Law, says **Bhaskar Chakravorti**

Gordon Moore's Law predicts that the processing power of microchips will double every 18 months. Given the microchip's metaphorical and physical significance, the prophecy of Intel's co-founder has become the de facto mantra of the information age.

True progress, however, cannot be measured simply in terms of raw computing power; this is progress made in the labs and the fabs (wafer fabrication plants). Progress must be measured where it counts – on the migratory path from the laboratory to the living room. Here the pace has been somewhat more deliberate.

For those of us who reside along this path, I propose a second mantra: information technology's value to the user progresses at about half the speed predicted by Moore's Law. I suggest we name this Demi Moore's Law.

So why the lag between progress in the lab and the product's arrival in the living room? It is the extreme inter-connection of the information industry that slows the pace of progress. While revolutionary breakthroughs are predicted and produced by our engineers, it is a circle of inter-connected decisions made by consumers and producers that acts as a brake on the engine of change.

As consumers and producers, we are all independent decision-makers with our own criteria. Still, as a consumer I need my software to be compatible with that of my co-workers; as a producer, I want to make commitments on a product or technology if it is likely to become the predominant industry standard – the next MS-Dos.

Therefore, each of us ends up placing bets on which technology or software will be the most popular and used the most often. To a degree, we are betting on the bets being placed by some other strategic player in this game – either our co-workers or a technology maker with a compatible or competing product. In highly interconnected situations this other strategic player may, in turn, be betting on us.

The resolution of this circularity – this continuous round of betting – becomes harder and more tortuous as:

- Our decisions become more inter-connected;
- Companies understand the value of their product becoming the industry standard and plan for it;
- The pace of technological innovation increases, making it more difficult to resolve the endless rounds of betting.

The ultimate irony of the "information age" is that it has over-delivered on all three fronts, thereby extending even the "natural" delay between invention and adoption. The result: progress has slowed relative to our expectations.

This is the core logic of Demi Moore's Law. And it will become especially significant as the prevailing obsession with processor speed gives way to the next obsession: transmission speed. After all, network transmission requires multiple interconnecting parties each with their own independent decisions to make.

Consider the example of the 56K modem which promised to double, for most of us, the speed of access to the internet. Despite the introduction of a well-priced 56K modem in autumn 1996, less than 50 per cent of modems shipped in January 1998 were of this variety. Why?

First, a 56K modem installed in a PC can download information at 56 kilobytes-per-second only when the 56K modem installed on the server operated by an internet service provider conforms to the same standard.

Second, since 1996 there have been two competing 56K standards: the X2, sponsored by 3Com (US Robotics), and the K56Flex, sponsored by Rockwell Semiconductor. A PC maker or channel would back a particular 56K modem only if its users wanted it. But users would want it only if the ISPs conformed to the same modem. The ISPs would want the modem if the PC makers and channels installed the same modem in the PCs.

Each of us bets on which technology or software will be the most popular

Most of 1997 was a race between 3Com and Rockwell to align the incentives of everyone in this betting circle towards their version of the modem. However, the International Telecommunications Union announced a common standard for the 56K modem that ended the contest.

Interestingly, shares in both 3Com and Rockwell rose after the announcement of a standard, suggesting that both would have been better off giving in earlier.

The inter-connection of decisions and the competition to own the standard caused more than a year's delay here. Not surprisingly, given the relentless pace of innovation, the 56K modem was obsolete before it was in the shops. New technologies – DSL and cable modems – promising speeds more than 50 times as fast will give industry participants yet another reason to pause.

We frequently express indignation and surprise (not to mention the jokes about the "world wide wait" and the "interminablenet") when the hyperbolic promises of the information revolution are not instantly fulfilled. Yet, given the inter-connection of decisions that must occur for a standard to be set and equilibrium to be reached, it is safe to assume that technological progress will be truly realised only half as fast as technology permits.

So expect the bark of Moore's Law always to be louder than its byte. Gordon's law that is, not Demi's.

The author is a senior member of US-based Monitor Company's consulting practice. He is also an expert in game theory and its applications in industry.

Demi wave: a new rule is needed to counter starry-eyed forecasts of technological advance AP

MUSEUMS

Boston turns over a new leaf

Victoria Griffith meets the man behind the Museum of Fine Arts' revival

Marketing comes as second nature to Americans, or so we are led to believe, but it took an Englishman to remind Boston's Museum of Fine Arts just how important image and outreach can be.

British-born Malcolm Rogers, who took over the directorship of the MFA (as it is affectionately known) in 1995, has high aspirations. He wants nothing less than to "win recognition for the MFA as one of the leading museums in the world". That's lofty talk for an institution that was tottering on the precipice of financial infirmity a short time ago. Before Rogers was brought in, the MFA's debt was rising, attendance and donations were flagging and staff morale was sinking.

He is given much of the credit for turning the museum around. The former deputy director of the National Portrait Gallery in London, Rogers managed to be more upbeat than his American colleagues. He organised blockbuster exhibits on Picasso's early years and photographer Herb Ritts. He built a small extension. He refurbished an abandoned sculpture garden. "Everything about the museum before I took over seemed to send the message that it was suffering," he says. "Of course, no one cares about suffering. Everyone wants to see success."

Before his tenure, says Rogers, the museum was so intent on penny-pinching, it had worked itself into a vicious cycle of failure. The main doors at Huntington Avenue, for instance, were closed, forcing visitors to use a side entrance designed many years ago by I.M. Pei.

While there was nothing wrong with the sleek modernity of the side wing, the pettiness of the move portrayed the museum as an institution that had turned inward to nurse its wounds. One of Rogers' first acts as director was to reopen the old doors.

"I got a lot of criticism for spending that money while we were cutting our staff," he says. "But we're in the business of building bridges and creating excitement. We had to send the message that we are a confident, open institution not afraid to make bold moves." Rogers' formula has worked. The museum's budget is now balanced, and gifts and membership applications are streaming in.

The MFA, which received 800,000 visitors annually at the beginning of Rogers' directorship, will see a projected 1.2m people walk through its doors this year. That's still well below the 1.6m that pass through New York's Museum of Modern Art, or the over 4m that visit the Metropolitan Museum of Art (the Met), but it's more than respectable.

Of course, Rogers could not have accomplished so much so quickly were it not for the strength of the MFA's permanent collection. Many art connoisseurs consider its treasures second in the US only to the Met in breadth and quality. The MFA boasts one of the strongest Egyptian collections in the world, and its Japanese section is acknowledged as the best outside Japan.

He vigorously defends the decision to exhibit the clay-animation series Wallace & Gromit. 'Museums have to let their hair down sometimes'

"The MFA is one of the great American art museums," says Anne d'Harnancourt, director of the Philadelphia Museum of Art. "Its collections are extraordinary, and Malcolm is making the most of them."

The museum not only owns a dazzling array of paintings by famed 19th century artists, but holds some of those artists' greatest masterpieces: Gauguin's *"Where do we come from, what are we, where are we going?"*, Monet's "La Japonaise", Renoir's "The Dance at Bougival" and Turner's "Slave Ship". Its collection of American paintings, with strong representation by Edward Hopper, John Singer Sargent, Arthur Dove and Georgia O'Keeffe, is stunning.

Rogers says his personal MFA favourites include the Egyptian statue Mycerinus and his queen, the Japanese temple room, a painting of the Brooklyn Bridge by Joseph Stella, and a portrait of a hero of the American revolution, Paul Revere, by John Singleton Copley.

After being passed over for the top job at the National Portrait Gallery, Rogers set his sights on Boston. The MFA's trustees were initially sceptical, desiring a higher profile champion to help turn the museum around. Rogers won them over with his vision.

With three successful *years under his belt*, he exudes self-confidence as he wanders through the MFA's galleries, sparkling anew after careful cleaning and display. Occasionally, he stops to talk to an elderly woman, one of the many potential or existing donors that are the life-blood of US museums.

He points with pride to a startling display of recent works by David Hockney, landscapes so luminous in colour they seem to jump off the wall. He vigorously defends the much-criticised decision to host an exhibit on the clay-animation series Wallace & Gromit. "Museums have to let their hair down sometimes," he says. "It's part of the marketing."

Buoyed by a new sense of *importance for both self and* museum, Rogers has big plans for the next few years. A major show on Monet's 20th century works will open in Boston in the autumn, its only US venue before moving to the Royal Academy of Arts in London. The MFA is organising what Rogers says will be the "greatest exhibit on John Singer Sargent ever". The director has accelerated the MFA's acquisition program, and hopes to build a new wing within the next 10 years.

The MFA has some chinks in its new-found armour. Its late 20th century collection remains weak, despite recent purchases. The museum's lack of public funding is still an issue, and its position on the edge of Boston, rather than in the centre of the city, continues to deflect visitors and attention.

Yet it has certainly pulled out of its slump, and appears to be headed for even better days. "I'd like every visitor to Boston to think they couldn't leave town without a visit to the MFA," says Rogers. "Even better, I'd like people to fly here just to see our collection."

Comedy eases Russian pain and tragedy

OPERA

LUCIANO CHIANESE

Lady Macbeth of Mtsensk
Maggio Musicale, Florence

Some have argued that Shostakovich was inspired by a heroine more akin to Juliet than Lady Macbeth when he decided to put to music the tragic story of Katerina Ismailova *in his* second opera, *Lady Macbeth of Mtsensk*. With Lev Dodin directing the opera for the opening of this year's Maggio Musicale in Florence, the connection between the two Shakespearean heroines was apparent from the opening scene, as Katerina lounged idly at her window sill, combing her long red hair on to a ruffled cushion and gazing at farm labourers in the courtyard below.

Dodin's time-setting of Shostakovich's early masterpiece was unclear until the final act, when the heavy communist uniforms of the guards escorting the convicts through Siberia gave a gentle historical frame to the drama. It was only at this point that the first scene-change took place. Initially, the spartan nature of the set, more reminiscent of a 1960s barn than a pre-revolutionary merchant's house in the Russian heartland, came as a disappointment. But Dodin's clever use of colour, both in costumes and lighting, caught the spectator's eye almost obsessively.

The lack of opulence only served to enhance the role of the orchestra, which made *its impact felt right from the* start and became to all intents and purposes the main protagonist. Playing under the Russian-born conductor Semyon Bychkov, it was placed on a pit-platform that enabled it to be lifted to stage-level during the long instrumental interludes. Visually startling, this greatly enhanced the orchestra's role in characterising the action, with the sound flooding the entire theatre unchecked.

Thanks perhaps to his long career as director of St Petersburg's Maly Theatre, Dodin did not fall into the trap of underplaying the comic aspect of Shostakovich's tragedy. The entire opera, in fact, was underpinned by a subtle stream of comedy, which took the edge off its more grotesque side without ridiculing the heroic stature of the protagonists. Dodin's witty approach culminated in the Act 2 whipping scene, with Katerina hopping about helplessly and shrieking hysterically as her father-in-law punished her beloved Sergei.

An audience in Russia would doubtless have warmed to Sergei, seeing him as a prototype for the worker oppressed by the rich landowning class; but in this production, he was hardly the kind of male specimen one would imagine a woman giving up riches and social position for, and the audience at the Teatro Communale seemed to take a sadistic delight in this short, fat man getting his just deserts.

Apart from ripping off his shirt to take his bow at the end, the Finnish tenor Jyrki Niskanen was impeccable both in his acting and vocal interpretation of Sergei, managing to overcome his physical unsuitability for the role. As Katerina, the American soprano Karen Huffstodt had everything in her favour, matching her striking stage presence to a rich and powerful voice.

Strong and individual: Lisa Tharps and Hamish Linklater in 'Love's Fire' — Alastair Muir

Sonnets with all the mischief

THEATRE

DAVID MURRAY

Love's Fire
Barbican Pit

Shakespeare's 154th sonnet concludes, "Love's fire heats water, water cools not love". New York's Acting Company has commissioned seven short plays by established writers, each inspired by one of the sonnets, and is presenting them in London at the Barbican Pit under the collective title *Love's Fire*. Expertly played, laced with erotic mischief, they make an engaging evening.

Rueful comedy is the keynote, but it comes in many flavours. We start with "Bitter Sauce", by Eric Bogosian (*Talk Radio*) – a sour vignette about a bride-to-be trapped in her wedding gown, her wimp-fiancé and her secret Hell's Angel stud – and end with "The General of Hot Desire" by John Guare (*Six Degrees of Separation*), in which the whole company puzzles over those dense sonnets, and then plays out a cod-Biblical history of mankind.

Bogosian's tart one-liners are in his familiar vein, like Guare's own particular knack for fanning confusion. Wendy Wasserstein's "Waiting for Philip Glass" is a bitchy piece about the bitchy, peripatetic rich: the kind of play that first mocks a character who thinks Philip Glass directed *Einstein on the Beach*, but takes care a minute later to inform the other half of the audience that he actually *composed* it.

William Finn's "Painting You" is a tender micro-musical – just one extended song, really, for an artist who finds that the longer he loves his lover, the harder it is to paint him whole. Stephen DeRosa delivers it with ringing verve and a wry edge. What the sexy black couple in "Hydraulics Phat Like Mean" by Ntozake Shange (*For Colored Girls who have Considered Suicide/When the Rainbow is Enuf*) are on about is hard to discern through their relentlessly poetical dialogue, but the choreographer Dyane Harvey turns it all into well-oiled dance.

Marsha Norman's "140" (that's her sonnet-number) is like *La Ronde* on cartoon and fast-forward, occasionally poignant while the couplings and deceptions proliferate. The cast-list includes "Roland's New Lover", "Roland's Lover's New Lover" and "Roland's New Lover's Lover" – two male, one female: that gives you the idea.

And Tony Kuschner (*Angels in America*) contributes "Terminating, *or Lass meine Schmertzen nicht verloren sein*, or Ambivalence". Aggressively personal, voluble, thick with psychobabble and gay irony, overblown but disarming: DeRosa has a whale of a time as the Woody-ish gay Jewish client of a lesbian psychoanalyst.

Too little space to praise all the other excellent actors. Special mentions, though, to Lisa Tharps, who plays five different people with perfectly individual personalities, and to gangly, doe-eyed Hamish Linklater, whose slowly bared bottom is a riveting feature of "140"; and, of course, to the director Mark Lamos, who has kept everything deftly together.

Until June 6.

Another string success

MUSIC

RICHARD FAIRMAN

Kronos Quartet
Royal Festival Hall

It only seems like yesterday that the Kronos Quartet was the new kid on the block. In the exclusive world of string quartets, *here was an* upstart that elbowed its way in, making its own rules rather than playing the game according to received tradition. Time flies and this week the Kronos Quartet is celebrating its 25th anniversary with four concerts at the Royal Festival Hall.

A quarter-century of changing attitudes in classical music has not made any difference to the fact that it remains a one-off. Despite commercial pressures, there still are no other string quartets that dress in black leather, use electronic sound systems and go on tour with a lightshow like a pop group – but then there are not any others that dare play the Royal Festival Hall either, which possibly tells us something.

A reasonable audience, though not a full house, turned out for the first of the four concerts on Sunday. As with most of the musical events in London the previous week, what we were offered was the live gig of the new recording to tempt people into buying the disc, though, in the Kronos's case, the programme managed to promote two recent CDs in the one evening.

The first was *Early Music*, from which we heard a 40-minute selection. The title is only partially helpful, as the early composers, such as Machaut and Hildegard von Bingen, are mixed with living ones, such as Cage and *Schnittke*. But, *in any case*, almost every short piece in this compendium has been specially arranged and comes out sounding more like the work of the present-day minimalists, which is the Kronos's usual home territory.

The second was Osvaldo Golijov's *The Dreams and Prayers of Isaac the Blind* (1994). This was a typical Kronos concoction of another kind, plundering world music for new effects, though not displeasing for that. The inspiration here is the Jewish musical tradition, which Golijov has used to drive a half-hour score of extreme contrasts and intensity.

It is, by definition, a clarinet quintet and David Krakauer gave a virtuoso display of cantor singing on the clarinet, which took him up to the highest reaches of the instrument's compass.

Golijov now joins the *starry* band of *composers* who have written new music for the Kronos, including Glass, Reich, Adams, Feldman and Gubaidulina – a record of which the four musicians can feel justifiably proud.

Reich's *Different Trains*, a Kronos commission, follows in tonight's programme and the mini-festival concludes with two concerts at the Royal Festival Hall on Saturday.

INTERNATIONAL Arts Guide

BARCELONA

EXHIBITION
Museu Picasso
Tel: 34-3-319 6310
Egon Schiele: The Leopold Collection. 152 paintings and drawings on loan from the largest private collection of Schiele's work in the world; to May 31

BERLIN

CONCERTS
Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Bernard Haitink in works by Schubert and Shostakovich. With soloist Matthias Goerne; May 29, 30, 31

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in a concert performance of Fidelio. With the Chicago Symphony Chorus; May 28
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in Beethoven's Symphonies Nos. 6 and 7; May 29, 30
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in a concert performance of Fidelio. With the Chicago Symphony Chorus; May 31

DUBLIN

EXHIBITION
Irish Museum of Modern Art
Tel: 353-1-612 9900
Brian Cronin: Fat Face With Fork. First exhibition in Ireland of work by the Dublin-born, New York-based illustrator. Spans his career from his first illustration to recent drawings, and includes sketches and source material; to Jun 1

FLORENCE

OPERA
Maggio Musicale Fiorentino
Tel: 39-55-211158
www.maggiofiorentino.com
● La Cenerentola: by Rossini. New production conducted by Roberto Abbado in a staging by Lorenzo Mariani; ETI-Teatro della Pergola; May 27, 28, 30
● Wozzeck: by Berg. New production by William Friedkin, conducted by Zubin Mehta; Teatro Comunale; May 29; Jun 1

GLASGOW

OPERA
Scottish Opera, Theatre Royal
Tel: 44-141-332 9000
The Queen of Spades: by Tchaikovsky. Conducted by Richard Armstrong in a staging by Yannis Kokkos; May 28

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
● Così Fan Tutte: by Mozart. New production by Graham Vick, conducted by Andrew Davis. Cast includes Alan Opie and Barbara Frittoli. With the London Philharmonic Orchestra; May 30; Jun 1
● Katya Kabanova: by Janáček. Revival of Nikolaus Lehnhoff's production, conducted by Yakov Kreizberg, with designs by Tobias Hoheisel. Cast includes Amanda Roocroft. With the London Philharmonic Orchestra; May 29, 31

HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4030 2211
● Siegfried: by Wagner. Conductor Leif Segerstam, director Götz Friedrich and designer Gottfried Pilz continue their collaboration on the Ring with this new production. The title role is sung by Stig Andersen; May 29; Jun 2
● The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tillberg. Conducted by Okko Kamu; May 28

LAUSANNE

EXHIBITION
Fondation de l'Hermitage
Tel: 41-21-320-5001
Pointillisme: more than 100 works, including loans from Europe and the US, tracing the influence of Seurat on a generation of young painters at the turn of the century; to Jun 1

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: André Previn conducts a programme of works by Copland, Previn and Schumann; May 31

Royal Festival Hall
Tel: 44-171-960 4242
Vienna Philharmonic Orchestra: conducted by Riccardo Muti in works by Brahms and Stravinsky; May 28

EXHIBITION
National Gallery
Tel: 44-171-839 3321
Henry Moore and the National Gallery: this celebration of the centenary of Moore's birth consists in a selection of his favourites among the Gallery's holdings; to May 31

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Bavarian Youth Orchestra: conducted by Reinhard Steinberg in works by Brahms and Berlioz. With piano soloist Paul Rivinius; May 27
● London Classical Players: conducted by Roger Norrington in works by Haydn and Mozart. With violin soloist Thomas Zehetmair and viola Ruth Killius; May 28

NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
www.lincolncenter.org
New York Philharmonic: world premiere of Del Tredici's The Spider and the Fly, for Vocalists and Orchestra, conducted by Kurt Masur. The programme is completed by works by Copland, Vivaldi, Weber and Ravel; May 28, 30

EXHIBITION
Museum of Modern Art
Tel: 1-212-708 9480
www.moma.org
Fernand Léger (1881-1955): retrospective comprising some 220 paintings and drawings by the early modernist; to May 27

PARIS

CONCERTS
Théâtre des Champs Elysées
Tel: 33-1-49525050
● Natalie Dessay: recital by the soprano, with the Orchestre de Paris conducted by Jun Markl. Programme includes works by Ravel, Granados, Delibes, Rachmaninov and Glière; May 27
● Orchestre National de France: conducted by Yuri Temirkanov in works by Rimski-Korsakov, Rachmaninov and Elgar. With piano soloist Yefim Bronfman; May 28

EXHIBITION
Grand Palais
Tel: 33-1-4413 1730
Man Ray: major exhibition of works by the photographer, drawing out the contrasts between the different styles and techniques with which he worked; from May 28 to Jun 29

PRAGUE

CONCERTS
Dvorak Hall
Midori: recital by the violinist of works by Beethoven, Brahms, Szymanowski and Saint-Saëns. With pianist Robert McDonald; May 28

Smetana Hall
Kathleen Battle: recital by the soprano of works by Handel, Wolf, Faure, Rossini and Turina. Accompanied by pianist Roger Vignoles; May 28

SALZBURG

CONCERTS
Salzburg Cathedral
Amsterdam Baroque Orchestra and Choir: conducted by Ton Koopman in a concert which opens a four-day festival of Baroque music; May 29

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
● San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in Mahler's Symphony No. 2, Resurrection. With soprano Rebecca Evans, mezzo-soprano Florence Quivar, and the San Francisco Symphony Chorus; May 27, 28, 29, 30
● San Francisco Symphony Youth Orchestra: conducted by Alasdair Neale in works by Bernstein and Rachmaninov; May 31

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3584 9999
● Pittsburgh Symphony Orchestra: conducted by Mariss Jansons in works by Beethoven and Shostakovich; May 27
● Tokyo City Philharmonic: conducted by Taijiro Iimori in works by Schumann and Bruckner; May 28

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHz (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

LIONEL BARBER
EUROPEAN VIEWPOINT

Blurred power lines

Political reform is challenging assumptions about the role of national government and identity in Britain, Ireland and Europe

The constitution of the United Kingdom is changing beyond recognition. This year, a new power-sharing assembly in Northern Ireland. Next year, a new parliament with tax raising powers in Scotland. In five years' time, perhaps, some form of proportional representation.

These reforms challenge long-cherished assumptions about the role of national government and national identity. The English, Scots, Welsh, and the men and women of Ulster are bound to ask themselves anew what it means to be British.

Judging from last week's referendum result in Northern Ireland, the reaction need not be defensive. In a community scarred by 30 years of violence, a majority voted in favour of a new political settlement in which sovereignty is shared with the south rather than frozen in a time-warp.

The implications for Britain's relationship with the European Union are potentially enormous. A decentralised Britain will create new power centres and networks with Brussels. The House of Commons will lose further ground. The regions will gain. Proportional representation, if it comes, would increase the chances of coalition government. Britain will become more like Europe.

So far neither Tony Blair, Labour prime minister, nor William Hague, the Conservative opposition leader, have made the connection between the New Federalism in Britain and the governance of the European Union.

Mr Blair's camp argues that there is no sense in frightening the horses. Remaking the UK is hard enough without introducing an unpredictable debate about, say, the political implications of economic and monetary union, the biggest pooling of sovereignty since the Treaty of Rome.

As long as Britain stays out of Emu, Labour's discussions on the single currency will stick to the safer ground of economics rather than politics. In the short-term, ministers will stress the need for flexible labour markets and structural reform. The politics of Emu can wait until early 2002, the most likely date for a referendum on the single currency.

Mr Hague has no such inhibitions. He styles himself the spokesman for a young generation of upwardly mobile, outward-looking Brits. He wants to rescue Europe from the folly of monetary union.

But he talks about Europe in terms that are 10 years out of date. Take his speech to the Insead Business School in Paris last week.

Mr Hague's premise was that the single currency is pushing Europe toward a

'One could find oneself trapped in the equivalent of a burning building with no exits'

single super-state with a common army, foreign and immigration policy.

The model is undemocratic, unworkable and could lead to conflict. In the end it will destroy the nation state to which the majority of the people owe allegiance.

"The single currency is irreversible. One could find oneself trapped in the economic equivalent of a burning building with no exits," Mr Hague said.

He has rightly been accused of taking a one-way bet on the failure of the single currency. He is in a long line of British politicians and civil servants who have underestimated the political commitment to make Emu work.

But the graver charge is that he has failed to grasp how the tide has shifted against the idea of ever-greater centralisation in Europe built around the European Commission in Brussels.

European politicians have long dropped the language of a United States of Europe. Even the European Commission – the institution charged with keeping the federalist flame alive – has changed tune.

An internal document on the future of the Commission now circulating in Brussels underlines the point. The tone is unashamedly modest. The era of ever-increasing EU budgets and reams of primary legislation is over. Now the emphasis is on enforcing what is on the books. Rather than submerging public administrations with new rules and regulations, the new game is to co-opt them through persuasion.

The new, lighter approach overturns the old argument in Europe between the intergovernmental school which prescribed loose co-operation between sovereign nation states and the federalist model which left the bulk of power with Community institutions. We are witnessing a more subtle form of power-sharing.

First, member states have declared unequivocally that some areas are off limits to the Union. Nato – not the EU – will take primary responsibility for the collective defence of western Europe. In matters of health, education, culture, and even to an extent border controls, national governments will hold sway, choosing on occasion to devolve responsibility to regional and local level.

Second, the vision of a common foreign policy remains just that. On certain areas – such as enlargement toward eastern Europe – there is a common purpose. On others reaching a common position remains extremely difficult – witness the myriad reactions to India's nuclear tests.

Finally and crucially, the lines of authority between Brussels and the member states are becoming more blurred. Increasingly, power lies in the networks of national public administrations whose experts gather regularly in Brussels alongside Commission officials to "run" Europe.

The best-known is the monetary committee comprised of national treasury officials and central bankers which created the blueprint for the single currency. But other ad-hoc groups are springing up on employment, food standards and taxation. This last committee is already proving to be a powerful stimulus for tax harmonisation in the euro-zone.

Mr Hague complains that all these trends will take European political union "well beyond its acceptable limits". Others will argue that EU members are engaging in a voluntary redistribution of power that will require citizens to have multiple allegiances: to a region, a country and, yes, to Europe.

Smaller countries living in the shadow of larger neighbours have made this transition. Ireland and Finland are the most striking examples. Britain lags behind.

Mr Blair's plans for British constitutional reform mean the question of Britain's constitutional relationship with Europe can no longer be avoided. Let the debate begin.

lionel.barber@ft.com

LETTERS TO THE EDITOR

WTO must adjust to trade being driven by more than policy elite

From Mr Harry L. Freeman.

Sir, I refer to President Clinton's speech at the General Agreement on Tariffs and Trade 50-year celebration ("Clinton urges new, faster trade round", May 20) and to John Ravett's letter (May 21). The challenge to the World Trade Organisation system – the successor to Gatt – is to bring the diverse views of more stakeholders to both the process of negotiating new trade agreements, and the process of dispute settlements.

Mr Clinton suggested that the WTO provide a consultative forum where business, labour, environmental and consumer groups could provide input. The same day, the US and EU agreed to seek "closer association of non-governmental organisations with WTO activities".

Mr Clinton's points reflect the fact that organised labour, environmental and other NGOs effectively blocked the enactment of a new "fast track" in 1997.

As an American who devoted many years to securing a WTO, I shudder at the thought of hundreds of NGOs from 132 member countries seeking accreditation to the WTO. Nevertheless, the appropriate WTO committees ought urgently to study the feasibility of opening up the hearings and distributing dispute panel briefs, as they are filed, before both the initial and appellate panels. The WTO web site can be the point of publication.

As for trade negotiations, member governments ought to examine how best to take into account the emerging stakeholders in world trade negotiations, accepting the principle that a broader view towards WTO stakeholders has become a necessity.

The WTO is, and should remain, a member-driven organisation. But keeping it that way requires sensitivity to external opinions. As trade grows in volume, more workers feel threatened; others believe the environment is harmed.

The era of trade negotiations being solely the domain of trade policy elites is over. Pushing for trade liberalisation will mean more batting against more activist NGOs, and high profile domestic regulators. Secretive policies will be a liability to the WTO when it engages with a broader stakeholder base. I believe that the WTO's future success means doing more business in the sunshine, popular or not.

Harry L. Freeman,
The Freeman Company,
4708 Dorset Avenue,
Chevy Chase,
MD 20815, US

Very non-EU practice

From Mr Doug Montague.

Sir, We read much about Microsoft's alleged anti-competitive "bundling" of its browser with Windows 98, but little of some of its other trade practices. For example, when I tried last year to buy a personal computer with Windows 95 from an Irish company, I was told that I could not have it without Microsoft's Office 97 as well, which I didn't want or wish to pay for. Protests were met with claims that Microsoft insisted on this "bundling".

So I bought Windows 95 separately, in the UK, came back to France and bought a bare computer. I then tried to contact Microsoft UK for another product, quoting my Microsoft registration number. I wrote to the company four times, without reply. I rang it fruitlessly for some weeks, and eventually spoke to a real person. "Why haven't you answered my letters?", I asked. "Well, sir, it is Microsoft UK policy only to deal with UK customers. If you live in France, you'll have to contact Microsoft France."

European Union law allows me to buy anywhere in the EU, from anywhere else in the EU, but Microsoft does not. Who is going to tell it to behave itself in Europe, and when?

Don Montague,
Les Arbres,
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24500 Eymet, France

Laughable that image problem remains

From Mr John Butler.

Sir, Sir Kenneth Cork must be turning in his grave (or, more likely, roaring with laughter) at your article "Overcoming fear of the i-word" (May 21) by Jim Kelly. In their day, Sir Kenneth and his firm Cork Gully were very much "in the forefront of the rescue culture". The Cork report (Cmnd 8558 – June 1982) put forward a shrewdly constructed framework for an innovative rescue culture which many considered more equitable, logical, and workable than the Insolvency Act which followed.

By an unfortunate process of "pick and mix", politicians all but destroyed Cork's careful construct, leaving today's insolvency practitioners with severely limited scope to prove that they are anything more than corporate undertakers. And now this is presented as an image problem – to echo your correspondent, what is the point of coining a euphemism?

John Butler,
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Rotherfield,
East Sussex TN6 3QG

US should declare its inability to act as impartial arbiter

From Mr Alan Mackie.

Sir, The dilemma faced by the Clinton administration in trying to broker a Middle East peace was highlighted by Madeleine Albright's remark to David Gardner and Andrew Gowers ("Albright's trade-offs", May 7) that "American foreign policy doesn't work if you don't have Congress as a partner". As the president was recently in receipt of a letter signed by more than three-quarters of the Senate urging him to desist from pressuring Israel to give up land to revitalise the Oslo peace talks, one can only conclude that the US Congress and, one suspects, a sizeable slice of American public opinion that has an interest in the issue, are content to see the expropriation of Palestinian lands by Israel continue indefinitely. This is not so much a negotiating process as systematic theft.

The honourable course the US administration should take is to declare that it is *parti pris* and thus unable to act as an impartial arbiter in the dispute. With Washington's cloak removed, it might be easier to focus attention on what is really going on.

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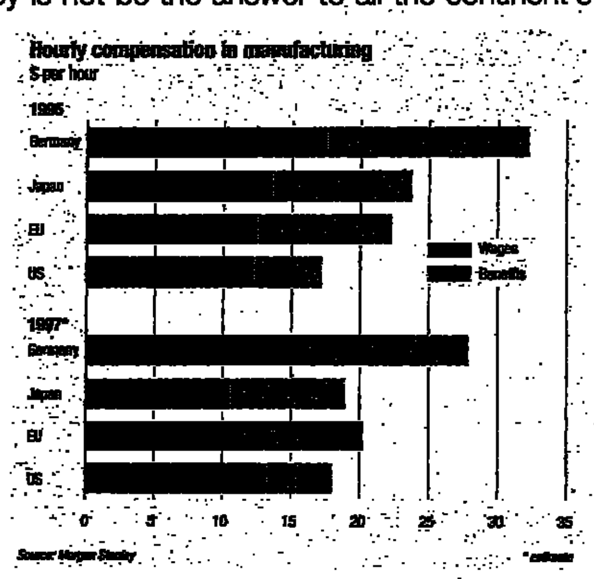
PERSONAL VIEW STEPHEN ROACH

Europe's dilemmas revisited

The single currency is not be the answer to all the continent's competitive needs

After the launch of the euro, the debate on economic and monetary union will shift from form to substance. Haggling over the process is out. Debate over the impact is in.

The main questions pertain to European competitiveness. Conventional wisdom has it that European Monetary Union will improve Europe's competitive position. This argument is typically framed in terms of scale: the new Emu-area will have a gross domestic product nearly 80 per cent that of the US and about 50 per cent larger than Japan. It will be one of the most open trading areas in the world. Add in the capital market efficiencies stemming from the elimination of currency transaction costs and Emu seems set to conquer the world.



Maybe. But it is worth remembering, in the midst of all this optimism, two of the things that Emu will not do. It will not reduce the continent's high labour costs in manufacturing. And it will not improve the efficiencies in Europe's bloated and highly regulated service sector – the segment that will have to pick up the slack as the continent restructures.

To take the first. In Germany, the economic engine of Europe, hourly wages in 1995 ($32.28) were 88 per cent higher than those in the US ($17.19). True, our estimates suggest the disparity had narrowed by the end of 1997 to 54 per cent – an improvement but still a long way to go. Two forces account for the narrowing: first, German hourly wage inflation in manufacturing rose 1.1 per cent over the 1996-97 period, well below the 3.1 per cent rise in the US. And second, the dollar rose about 25 per cent against the D-Mark from year-end 1995 to year-end 1997. According to our estimates, the bulk of the change in Germany can be accounted for by the weakening of the D-Mark.

If you adjust labour costs for productivity, the German cost disadvantage is not so bleak. In part, that is because manufacturing productivity there soared by 6.7 per cent in 1996-97, compared with 4.6 per cent in the US. Even so, our estimates suggest that dollar-based unit labour costs in Germany are still at least 14 per cent higher than those in the US and even further above those elsewhere in Europe.

Many believe that the single currency will enhance labour productivity mainly by making Europe's capital markets more efficient. In my view, this seems unlikely. The pressure exerted by the capital markets seems a highly circuitous way of dealing with Europe's severe structural problems. In the case of worker compensation, it will be the political process that ultimately determines the outcome. The reason for this is that the root cause of European labour costs lies in the continent's deeply entrenched social contract. In 1996, benefits and social insurance programmes accounted for 26 per cent of total hourly compensation in US manufacturing but 45 per cent in Germany. We calculate that the social contract accounted for 66 per cent of the disparity between US and German compensation in 1996.

Obviously, there is more to Europe's wage-competitiveness than Germany. In dollar terms, German compensation in 1997 (at $27.81 an hour) was nearly 40 per cent above the European average ($20.26). At the opposite end of the spectrum are low-cost labour rates in the UK ($14.01), Italy ($15.29), and France ($18.53). On average, hourly compensation in euro manufacturing was 32 per cent higher than in the US in 1995. By year-end 1997, this differential had been pared to just 12 per cent. While that still leaves Europe as the industrial world's high-cost producer, there is no mistaking the narrowing of the overall cost disadvantage for the region as a whole. The key is whether this can continue.

In an era of privatisation and corporate restructuring, the service sector is increasingly serving the role as a shock absorber to accommodate the job-shedding that occurs in competitive tradable goods industries. Without a dynamic and competitive service sector, European restructuring could well be for naught.

Hence the significance of Europe's second big problem: the role of information technology. The region's investments in such technologies, widely viewed as the great hope for the white-collar productivity revolution, are clearly lagging. According to the latest European Information Technology Observatory (EITO 98), western Europe earmarked just 2.26 per cent of its gross domestic product to information technology hardware in 1996, below Japan's 2.51 per cent and short of the US's 4.08 per cent. The EITO data indicate that western Europe had a mere 52 business personal computers per 100 white-collar workers in 1996, half the US endowment of 103 per 100 white-collar workers.

In short, Europe's knowledge-based white-collar functions are at a disadvantage when compared with the technology endowment of those in the US or Japan. This is not something that Emu can do much about directly. Given the globalisation of service industries and the heightened role that white-collar workers play in delivering efficiencies in tradeable goods, this shortcoming could seriously hobble Europe's performance in the years ahead.

Over the short term, shifts in competitive opportunities hinge on currency fluctuations. And that leads to one of the biggest tactical challenges for Europe. A back-of-the-envelope calculation suggests that it would require a 2.7 D-Mark/dollar exchange rate to make US and German compensation balance (the rate is currently 1.77). But it would take a much smaller depreciation of the euro to achieve a similar condition of wage parity for other countries in Europe.

That in a nutshell is another aspect of Europe's dilemma – whether a single currency holds the answer for a Europe with disparate economic and competitive imperatives.

A decade ago, the US was widely perceived as being in a state of permanent economic decline, while Germany and Japan were thought to be pre-eminent. Now the world has broken out the champagne in celebration of America's unparalleled competitive hegemony.

As that about-face should indicate, it does not take all that long for the competitive tables to turn. But for the moment at least, though Emu is about to change the rules of European financial markets, there is still good reason to believe Europe faces a tough uphill battle. Its leap of faith to Emu changes none of that.

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FINANCIAL TIMES

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Wednesday May 27 1998

Thailand's hard year's labour

A year ago, Thailand led the way into the east Asian financial and economic crisis. Will it also lead on the way out? The fourth letter of intent to the International Monetary Fund, released yesterday, suggests it may, since adjustment and restructuring have been remarkable. But strong recovery remains, as yet, a hope rather than a reality.

For the Thai authorities, among the most pleasing rewards has been the stability of the baht, despite the Indonesian turmoil. That stability suggests recognition, not just of their meticulous implementation of the IMF programme, but of the remarkable turnround in Thailand's current account. From a deficit of 8 per cent of gross domestic product in 1996, it is forecast to move into a surplus of 7 per cent this year – a swing of 15 per cent of GDP.

The domestic counterpart of this spectacular external adjustment has been a shift in private net saving from minus 11 per cent of GDP in 1996 to plus 9 per cent this year, itself largely caused by the collapse of private investment, from 32 to 16 per cent of GDP. Unfortunately, this development has inevitably meant a deep recession, with GDP now forecast to contract by between 4 and 5.5 per cent in 1998.

Tight control over inflation and a strengthening exchange rate have permitted modest easing of monetary and fiscal policies. Short-term interest rates have fallen some 6 percentage points from their peak, though they remain around 7 per cent in real terms; the target for the fiscal deficit this year has again been modestly increased, this time from 2 to 3 per cent of GDP; and the forecast growth of broad money has been raised from 5 to 9 per cent, though even this is a modest contraction in real terms.

Meanwhile, economic reform and restructuring are being vigorously pursued, but these will be time-consuming. This is true of reform and re-capitalisation of the financial system and of the needed restructuring of debts owed by the non-bank private sector, since this depends not just on legal changes, now being put in place, but also on their effective implementation.

Against this background, hopes for a swift recovery depend unavoidably on exports, with domestic consumption and investment following slowly behind. Despite the frailty of the east Asian economies, notably Japan's, and the tight credit rationing afflicting many Thai exporters, export volume is forecast to expand 9 per cent this year, following 9 per cent in 1997. This is not bad, but needs to be better. While Thailand is pursuing the orthodox route to economic health with vigour and signs of success, a strong recovery, let alone a return to rapid and sustained growth, looks some way off.

TV shoot-out

The battle between the EU competition authorities and two media companies, Kirch and CLT-Ufa, over the future of digital television in Germany is close to an important climax.

Like the traditional sheriff, Karel van Miert, the competition commissioner, boldly pronounced that he would stand firm against a joint venture which would carve up the emerging pay-TV market. He demanded concessions.

The companies duly retreated a few steps – agreeing to sell a 25 per cent stake in Kirch's set-top decoder subsidiary, BetaResearch, to give competitors access to 25 per cent of Kirch's film rights, and to allow other cable companies to send out Premiere, the programme company that they jointly own.

Mr van Miert told them to move along further. The companies refused to budge. The standoff will be considered today by the European Commission, and as often happens in such dramas, the sheriff is far from sure that his own people are all right behind him.

Some are arguing that an alliance between Kirch and CLT-Ufa, the Luxembourg company 40 per cent owned by Bertelsmann of Germany, is needed to stand up to the intrusive power of Hollywood. Others say that the high initial costs of a digital pay-TV network make some elements of monopoly inevitable.

There is something in the second argument, but the Commission should not give way to it. It should scrutinise the proposal at three levels: the market for programmes including bought-in films and sports coverage; competition with other methods of distribution; and access to the set-top box which provides the electronic gateway for digital services.

The proposed venture would dominate all three. Companies may want an assured market to compensate them for the big expense of buying up programmes. Even so, they must not be allowed a complete monopoly over all the best films. Equally important, they must be open to competition from other means of distribution, in this case satellite broadcasting. To secure this, the Commission must insist that the set-top box uses a standard technology truly open to competitors.

Even when agreements for open access to digital technology are secured, they may need to be policed at a technical level. Neither the EU nor most national governments have very effective arrangements for this yet – although Oftel in the UK has worked well, and might provide a model. Meanwhile Kirch and Bertelsmann should be required to make stronger commitments to openness and Mr van Miert should stick to his gun.

Kabila's failure

One year after Laurent Kabila was catapulted from obscurity to the presidency of Congo, he cuts a sorry sight. Hopes that he could preside over the recovery of a country rich in resources, but ruined by corruption, have been dashed.

Authoritarian and incompetent, Mr Kabila has not only managed to offend the African governments which brought him to power. He has also angered the UN, discouraged foreign investors, and alienated aid donors, as the troika of European Union ministers led by Britain's Tony Lloyd should make clear when they visit Kinshasa next week.

No single issue has done as much damage to Mr Kabila's reputation as his refusal to co-operate with the UN investigation into allegations of mass killings of Rwandan Hutu refugees during the war against former President Mobutu Sese Seko. Until he complies, the donors are right to withhold backing for the country's $4.5bn recovery programme.

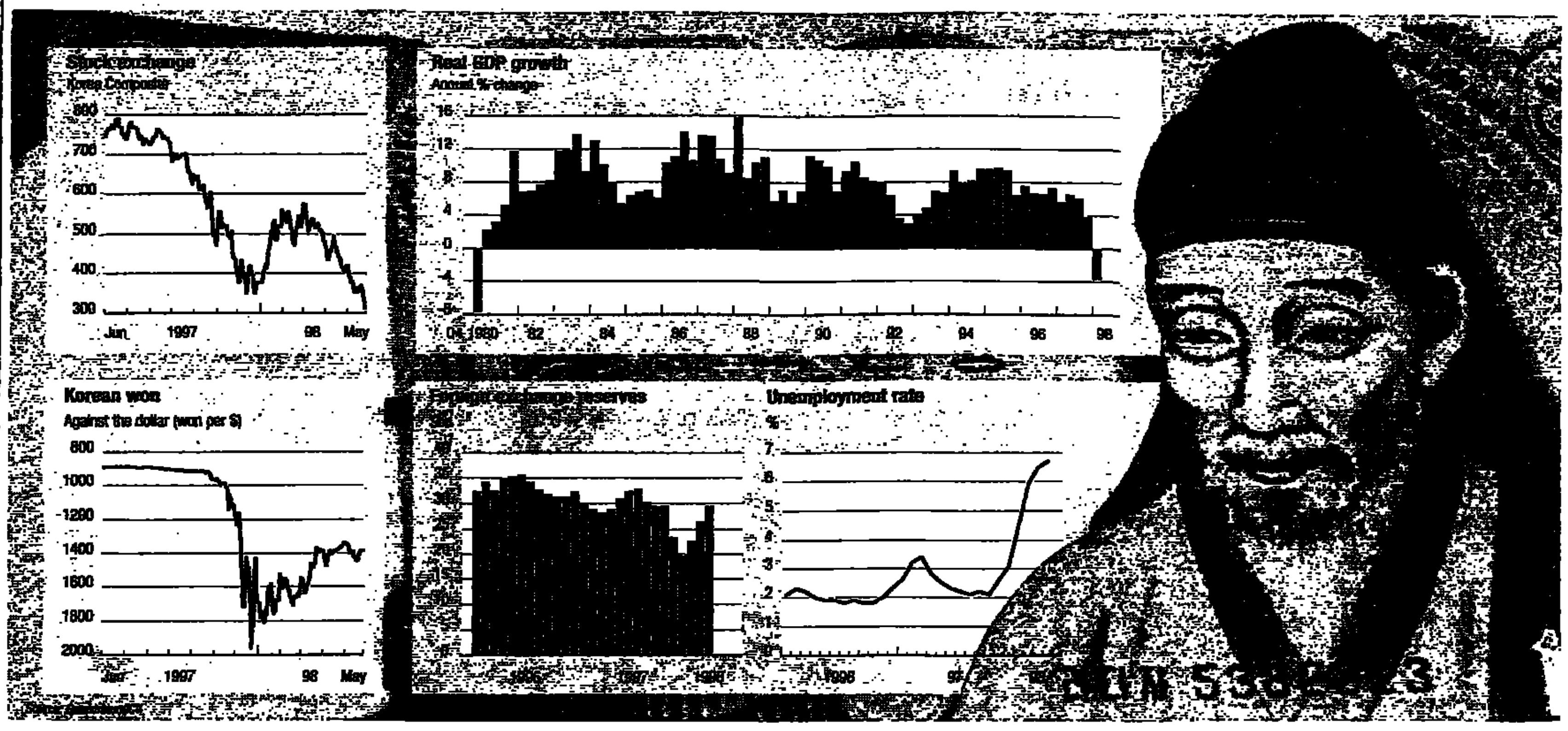
Mr Kabila also has to win the confidence of would-be investors in the country's mining industry, which should be at the heart of Congo's economic revival. The absence of clear legislation, doubts about ministerial authority to grant licences, and the lack of an independent judiciary to enforce contracts have discouraged most companies.

But while the EU ministers should pull no punches in their criticism of Mr Kabila's performance, the donors' own response has fallen well short of what Congo's recovery urgently needs. Their pledges have been modest, and they have been reluctant to address the problem of the country's $15bn external debt, more than eight times the value of annual exports. The burden of servicing this debt is incompatible with any recovery.

Although Congo is not eligible for existing debt relief schemes, it should fall into the category of disaster-hit countries which, as the G8 leaders who met in Birmingham acknowledged, need special treatment.

Congo qualifies not simply because it has been ravaged by war and corruption. Much of the debt dates from the cold war era, when loans were little more than rewards for Mobutu's loyalty to the west. The lending continued long after a senior IMF official in Kinshasa formally warned that much of the money was ending up in the dictator's pockets.

Mr Kabila has far to go in carrying out the political and economic reforms attached to debt relief. But if the visiting ministers are to have an impact, they should be offering a carrot as well as waving a stick. Not only would aid be released by Mr Kabila's compliance with the UN investigation. Debt relief would be on offer, too.



A last chance for Korea

After the fall of Suharto, FT writers consider Asia's new pressure points. Today, John Burton looks at South Korea

Kim Dae-jung promised a Big Bang of reforms when he became president of South Korea in the middle of the country's worst economic crisis in two decades. Three months on, the bang is becoming a whimper.

Last week banks bailed out the 10th largest *chaebol* (conglomerate) lest a collapse bring down the financial system. Government officials backed the rescue though they have promised to let the weakest companies go to the wall. "There have been plenty of words," says one foreign observer, Daniel Harwood, of ABN Amro Asia, "but few deeds."

Time is now running out. Today, a general strike has been called to protest against one of the more dramatic corporate decisions so far, that of Hyundai Motors to fire 18 per cent of its workers. Fearing that labour unrest could combine with bank timidity to produce more problems, the stock market has fallen almost 20 per cent in four days.

Officials accuse critics of impatience. "The real adjustment process is only just beginning," says Kang Bong-kyun, the senior presidential economic adviser. Few doubt the president's personal commitment to change.

But he faces a phalanx of vested interests defending the status quo. And as a result, say critics, the government no longer as the resolve or the support it had in December. "The government seems to be pushing restructuring yet trying to avoid any pain stemming from it," says Lee Tae-yol of the Hyundai Research Institute. In short, Korea, which once copied Japan in dirigiste economic planning, may be repeating the mistakes of its bigger rival in failing to push through reforms.

Things will get worse. Economic indicators released by the government last week showed the country's problems are more severe than was earlier thought. Gross domestic product shrank by 3.8 per cent in the first quarter, the worst performance in 18 years and even worse than had been expected.

Industrial investment fell no less than 41 per cent and private consumption dropped 10 per cent. Unemployment more than doubled to 6.7 per cent in April from a year before and it is expected to reach 10 per cent by the year's end.

The state-financed Korea Development Institute, the nation's top think-tank, recently warned that the recession could last three to five years if financial and corporate restructuring proceeds slowly. It even said another currency crisis could erupt in spite of the $58.3bn bail-out arranged by the International Monetary Fund last December.

The Seoul bourse, anticipating that worse is indeed to come, fell to a 11-year low yesterday. The currency, the won, has recovered to 1,400 to the dollar from its December low of nearly 2,000. But analysts expect it to dip again if Japan's recession pushes down the yen.

So what has actually been done? A great deal, officials say. Important macroeconomic reforms, they claim, have been put in place under pressure from the International Monetary Fund and the effects will soon be felt.

Financial markets have been fully opened to foreign investors. The reforms include the abolition of a foreign shareholding limit in listed companies. This was approved on Monday.

The government has started cleaning up the indebted financial sector by suspending half the investment banks that specialise in short-term corporate lending. It will recapitalise troubled commercial banks, buy back bad loans and improve deposit protection under a Won50,000bn (£22bn) programme that will place a large number of banks under state control. Officials say they will force mergers among near-bankrupt financial institutions and expect them to call in loans from "non-viable" businesses; 14 of the 26 commercial banks, including the six largest, have not met the capital-adequacy ratios laid down by the bank for International Settlements.

Laws have been passed that would force the *chaebol* to reduce their sprawling industrial empires at the end of 1999. The reforms require them to cut debt and abandon cross-subsidiary loan guarantees. Social benefits have been improved for workers losing their jobs in the process.

Doubts remain about whether these changes can be implemented and sustained. "The real challenge is to implement these reforms on a microeconomic level," says Henry Morris of Industrial Research and Consulting, in Seoul. "Unfortunately, the unity that Korea initially had in confronting the crisis last December is crumbling and faultlines of opposition are emerging."

Some of Korea's success may have lessened external pressures to change. After rescheduling its foreign debt with international banks, the country's freely available foreign currency reserves rose to $31.5bn in mid-May from a low of $6bn in December. The current account recorded a surplus of $12.3bn for the first four months of 1998 against a deficit of $8.7bn a year ago after a drastic cut in imports. Pressure from the IMF has eased somewhat since it has already disbursed $23.1bn, nearly half the promised money.

But the bigger problem lies inside the country. It comes from the resistance to change of five groups: industrialists, workers, bankers, bureaucrats and opposition politicians.

● **The chaebol.** The family-owned conglomerates are trying to avoid having to shed businesses to help pay debts that amount, on average, to five times equity. Kim Woo-chong, chairman of the Daewoo group and head of the Federation of Korean Industries, says demands for corporate restructuring are a plot by western multinationals to gain a larger share of the Korean market by weakening local competitors. "The IMF has been standing behind the developed nations in demanding the abolition of the *chaebol*."

'The unity is crumbling and faultlines of opposition are emerging'

Nonetheless, the top six *chaebol* – Hyundai, Samsung, LG, Daewoo, SK and Ssangyong – have produced restructuring plans recently that call for selling $30bn in assets to foreign investors. Analysts dismissed them as unrealistic because many of the assets are overvalued.

● **Trade unions** are resisting large job cuts as unemployment rises. The *chaebol* say that this is hampering restructuring. The unions reply that the *chaebol's* owners should shoulder part of the burden of reform by sacrificing their personal wealth to pay corporate debts.

In these circumstances, the plan by Hyundai to sack almost a fifth of its 46,000 workforce in June could trigger a summer of discontent. Korea's biggest carmaker said the mass redundancies are necessary since operating capacity has been halved by a slump in domestic sales.

The militant Korean Confederation of Trade Unions, which represents Hyundai workers, has called a general strike for today. There are fears of renewed street violence after 22,000 workers and students fought with riot police in Seoul on May Day.

Worried about a public backlash over high unemployment, the government has urged companies to refrain from dismissing workers despite a new law making mass redundancies easier. This ambiguous stance has been criticised by the *chaebol*. "It would be better if the government focused on dealing with jobless people and producing new jobs rather than trying to prevent unemployment artificially," says Hyundai's Mr Lee.

● **Bankers** are fearful that big corporate bankruptcies would wipe out their capital and lead to their closure. As a result, they have preferred to provide "emergency" loans to prop up insolvent *chaebol* instead of allowing them to collapse.

"A great deal of the banks' new lending is focused on shoring up large borrowers, whose default on existing debt could endanger the banks," says Lee Hun-jai, head of the state financial supervisory commission. "Such practices are inherently unstable, starve worthy small and medium-sized enterprises of credit and further erode the banks' portfolio and franchise value."

As analysts point out, the bankers' desire to keep *chaebol* going on the grounds that they are too big to fail is like the arguments used by previous governments to justify state intervention in the economy.

● **Some bureaucrats** still support those arguments. There are signs of growing division in the government between reformers and conservative technocrats. Mr Kim's party, the National Congress for New Politics, supports change. But many of the top economic posts are occupied by technocrats, who represent a bureaucracy keen to guard its turf. Their influence reflects support by the government's junior coalition partner, the United Liberal Democrats, whose leaders include the architects of Korea's state-guided capitalism.

● **The opposition** is keen to encourage this split. The former ruling Grand National party holds a slim parliamentary majority that it has used to weaken laws regulating the *chaebol*. The GNP has close ties to the bureaucracy and the *chaebol*, which have supported the party financially.

Clearly, then, resistance to change is strong. For the moment, it seems to have slowed down the reformist impetus. But President Kim might be delaying another round of reform until after local elections, due on June 4. These will be the last national polls until parliamentary elections in 2000. A decisive win by the government in them could persuade dissident MPs from the faction-ridden GNP to join the government and provide it with a parliamentary majority.

If so, senior officials say that reform could accelerate once more. The stakes are high. If the government does not get its mandate, or if it does but still fails to push through more painful measures, Asia would have another epicentre of economic crisis to deal with, alongside Indonesia and possibly Japan. And that would further call into question anyone's ability to calm the region's turmoil.

Later articles in this series will include China's banks and Japan's recession.

OBSERVER

Kalff's lever

ABN Amro chairman Jan Kalff was in Brussels on Monday, telling a bankers' bash how hard it was to find a partner in overbanked Belgium. The Belgian Bankers' Forum shindig was hosted by Générale de Banque, whose chief executive, Ferdinand Chaffart, took the biggest *fromages* off to his headquarters for dinner afterwards.

Glorious as the repast apparently was – the Dutchman describes Chaffart as a "Burgundian character" – it was not quite a case of Kalff liking the meal so much that he decided to buy the company.

The two had been talking on and off for some months, ahead of a bid for Générale from Fortis which Chaffart found less palatable. But it was only after dessert that Kalff took him aside to say that ABN Amro would by dawn have made a $12.2bn counter-offer.

"He was the happiest man there," says Kalff, convinced he has the management of Belgium's oldest bank on side. Yesterday ABN Amro even produced evidence that the two institutions share a founder – King William I, who set up the legal predecessors to each in the early 1820s.

Amid this baronial splendour, spare a thought for Hans Bartelds, Utrecht-based co-chairman of the Belgo-Dutch Fortis. He had to make do with an early morning phone call from Kalff breaking the news that his bid had been topped. That must have been enough to curdle the porridge.

What a shower

Plummeting property prices in Hong Kong have been testing property developers' guile to destruction. Potential space-takers are getting used to being lobbied by enthusiastic representatives of rival developments.

The latest wheeze from Cheung Kong, flagship company of Li-ka-shing's business empire and one of Hong Kong's biggest property companies, is to team up with American Express so that tenants and buyers of some of the world's most expensive real estate can do so with the wave of their card.

Needless to say, there are loyalty points that can be used to pay for agents' or conveyancing fees – or even the bathroom fittings. Unlikely to stop the market going down the plughole.

Round the houses

The struggle over Nemic-Lambda between Rikihiro "call me Ricky" Madarame, its Japanese founder and chairman, and British engineering outfit Siebe looks set to be a bitter one, all the way to the June 25 annual meeting – when Siebe is trying to oust Madarame and most of his fellow directors.

In the meantime, Observer can shed some light on Madarame's unusual business philosophy, which he says is based on Buddhism.

Instead of being hierarchical, Madarame claims that the organisation of the curiously-named Japanese electrical engineering group is "spherical so that any person at any time can be the central figure at the top". With 50.6 per cent of the shares, Siebe has its own view of where it fits into the picture.

Fresh fields

Europe's farm ministers have spent most of the last couple of days discussing how to report progress on agricultural policy reform to next month's heads-of-government meeting in Cardiff.

Little has been agreed, so there isn't much to say, but instead of getting on with the real meat, the ministers had hours of fun wrangling over a *communiqué*. Even though it was anodyne to the point of meaninglessness, one early version alarmed the Germans so much that they insisted on a translation into their own language – so other countries followed suit.

The Finns eventually declared that they were perfectly happy with the English text – but that the Finnish version was unacceptable. Should go down a storm in the cowshed.

Out of the frame

The custom of having a picture of *el presidente* in every bureaucrat's office wall has had a bit of a knock in Panama. Opponents of president Ernesto Pérez Balladares have come up with a long-ignored 1941 law forbidding the presidential mugshot from public offices.

Panama's electoral tribunal – in what might be a compliment to the president's looks – has ruled that the photos could indeed hand Pérez Balladares an unfair advantage at the polls. Pictures of *El Toro*, as the president is known on account of his size and shape, are being pushed into cupboards all over Panama, where they will have to stay indefinitely, unless the law is changed.

If Pérez Balladares wins the August referendum to allow him stand for a second term, then tops the polls next May, getting shot of that dusty 57-year-old law should be a breeze.

Price sensitive

Michel Bon may not match the pulling power of Janet Jackson or an Elton John. But the France Telecom chairman gave a polished display yesterday at the Palais Omnisports, where both superstars will be singing later this summer.

But in front of anything up to 4,000 shareholders at the company's first annual meeting since partial privatisation last autumn, Bon did fluff his lines once, putting the issue price at FFr282 instead of FFr182. Given the shares' giddy rise to FFr349 at last night's closing, his audience was in a forgiving mood.

The Financial Times

100 years ago

Blockade Of Cuba
Madrid, 26th May. The "Heraldo" publishes a telegram from Havana of yesterday's date stating that some of the American warships shelled Fort San Hilario, situated three miles from the port of Nuevitas. Others of the enemy's ships reconnoitred the entrance to Cardenas Bay with the intention of ascertaining whether any torpedoes had been laid and of eventually forcing an entrance. The inhabitants of Cardenas are fortifying the place strongly. The telegram adds that twelve American warships have made a demonstration off Cienfuegos. Key West, 26th May. A gunboat detached from the blockading squadron off Havana reports that everything is quiet.

50 years ago

S. African Election
Johannesburg, May 26. A record poll was prediced in to-day's South African General Election – a trial of strength between General Jan Smuts' United Party (Government) and Dr. Daniel Malan's Nationalists (Opposition). Observers believe that the larger the vote the better were the chances of General Smuts' followers, particularly on the Rand, the key area to the whole election.

FINANCIAL TIMES

WEDNESDAY MAY 27 1998

THE LEX COLUMN

Dutch courage

The outbreak of an auction for a prime Belgian banking asset shows how the looming euro is sparking a revolution in continental Europe's financial services sector. And, national pride aside, shareholders in Générale de Banque should be rubbing their hands with glee. ABN Amro is offering a generous three times book value. The offer is about 24 times this year's earnings forecasts, begging the question of when ABN Amro might expect to get a decent return.

Its answer comes in the form of an impressive looking synergy claim of Fl 1bn (Ecu 450m) by about 2002. Taxed and discounted to a present value, the amount is roughly halved but still equivalent to a 50 per cent earnings increase for Générale de Banque. On this basis, ABN can claim earnings enhancement in a few years' time, although achieving a return comfortably ahead of its cost of capital will take longer. Constrained in its home market and with pockets deep enough to finance its push for a leading position in euro-zone banking, it is right to take the long-term view.

There is, however, a caveat over the synergies. ABN is claiming 50 per cent more than its Belgo-Dutch rival Fortis, although it has less overlap with the target. It admits that only a third of the Fl 1bn will come from cost-cutting. The rest relies on softer revenue synergies, such as selling more investment banking services to more corporate clients. Fortis' Ecu 300m savings are largely cost cuts. However, it, too, could claim considerable cross-selling potential, notably of insurance products.

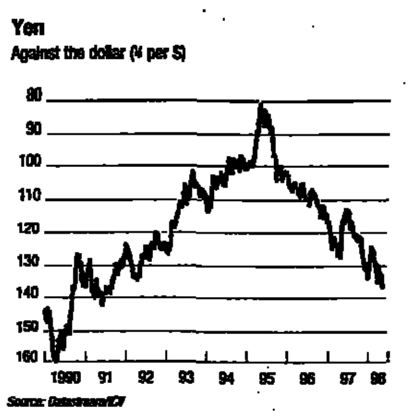
As it considers whether to raise its bid, its initial conservatism will be revised. With the gap between its bid and that of ABN narrowing to less than 10 per cent, it is probably worth it raising its paper bid. It is also right to place a high strategic value on Générale de Banque.

Fortis' gain begs the question of whether Société Générale de Belgique looks at all foolish for agreeing to sell at a lower price? It does not. It faced a tricky political job in prising away Générale de Banque's independence, a process which has helped fuel an 80 per cent jump in the bank's shares since late last year.

But it would have been too politically unpopular for its French parent, Suez Lyonnaise des Eaux, brashly to put its key stake in the Belgian bank up for auction. SGB's main concern must be that a hot contest could lead to Fortis – in which it has a stake – overpaying.

Short of that, it should gain from the Fortis/Générale de Banque combination – or, if Fortis backs out, it can sell its stake to ABN. Suez has, in any case gained its main Belgian prize, a tighter hold on the utility Tractebel by buying out the minorities in SGB.

There may even be a carve-up option between ABN and Fortis, as the former may have to shed some Dutch business. This would leave Fortis with some consolation, although losing Générale de Banque would be a blow for its euro strategy.



Source: Datastream/ICV

Yen/dollar

The only thing weaker than the yen seems to be the resolve to shore it up. Rumours that US Treasury secretary Robert Rubin is prepared to live with rates of up to Y150 to the dollar, were enough to send the Japanese currency to a seven-year low of Y137.

Although subsequently denied, the reports look close to the mark. While the US trade deficit is deteriorating, robust economic growth and low unemployment mean there is no pressure on the government to act. The Treasury's strong dollar policy, leading to a strong bond market and low interest rates, is politically popular. By contrast, Mr Rubin will gain few votes by helping the yen.

The Japanese authorities, meanwhile, can have little enthusiasm for a stronger currency given the stagnant economy. Indeed, with the Bank of Japan considering monetary easing, its main concern is probably to prevent a sudden free-fall and to engineer a slow and steady erosion instead. To do so, it will keep the threat of intervention dangling above the currency markets. But the lack of any policy statement at the G8 summit in Birmingham suggests there will be little concerted international action.

Fundamentally, a stronger yen needs a recovery in the Japanese economy and that is unlikely until well into 1999. Meanwhile, deregulation has made it easier for Japanese capital to flee abroad in search of higher yields. Yen weakness looks set to continue.

Liffe

So there may be Liffe after death after all. The simultaneous arrival of electronic trading and the euro constitute the sort of paradigm shift which could have unseated the London futures and options exchange from its position as Europe's premier derivatives trading operation. Certainly, its Frankfurt-based rival DTB has been making all the running recently while Liffe has been riven with power struggles and indecision.

With luck, Liffe can now take a more pro-active role. Its board is finally committed to introducing an electronic trading system and has accelerated the deployment to the first half of next year. This should be cheaper and more flexible than traditional pit trading, which will run in tandem.

Liffe's electronic platform will still be a touch late for the euro. And there is, of course, a risk that it will not meet its accelerated deadline or that the system will be full of bugs. So Liffe has certainly not won the battle with the DTB yet.

Moreover, Liffe has fudged the reform of its corporate structure. The decisions to turn it into a profit-making entity and open up electronic trading to non-members are good. But the link between membership and pit trading is staying, as is the convoluted shareholding structure. If that is the compromise needed to gain agreement from floor traders to the other reforms, so be it. But this half-way house should be revisited before long.

Rosneft auction closes with no bidder announced

By Chrystia Freeland in Moscow

The auction of Rosneft, the largest Russian oil company, failed yesterday because there were no bidders, according to Russian news agencies.

Sergei Kiriyenko, the Russian prime minister, said the government had received no bids for the 75 per cent on offer by the deadline yesterday afternoon, the agencies reported. He said the government would announce terms for a second effort to privatise Rosneft on Saturday or Monday.

At a press conference yesterday government ministers had refused to comment publicly on whether there had been any bidders. The government's formal announcement of the results of the sale is expected on Friday.

Failure of the Rosneft auction is politically embarrassing and financially dangerous for the Russian government, which had hoped that the Rosneft sale would be a model privatisation.

It will also further unsettle Russia's troubled financial markets, which had been expecting the Rosneft sell-off to provide billions of dollars for the country's cash-strapped treasury.

"We're still uncertain, but it looks as if nobody's come to the party," said Stephen O'Sullivan, oil and gas analyst at United Financial Group, a Moscow investment bank. "It is bad for the government because they were expecting the revenue and this was quite an important week to have some money."

Over the past few weeks the leading corporate contenders for Rosneft have warned the government that its $2.1bn starting price for the 75 per cent stake was too high, insisting that the falling price of oil and the turbulence in Russian capital markets meant that potential bidders were revising their approach to the auction.

But the Russian government was deaf to their complaints, insisting that it would stick to the announced price in an effort to maximise its revenues and assert its independence of big business.

Gazprom, the Russian natural gas giant, had been the strongest contender for Rosneft. Last year Gazprom formed a consortium with Royal Dutch/Shell and Lukoil, a Russian oil company, and the group said it would consider a collective bid for Rosneft.

Oneximbank, together with its strategic ally British Petroleum, had also been in the running for Rosneft. Earlier, officials at Oneximbank had said it was too expensive.

As the government prepares for a second attempt at Rosneft privatisation, Gazprom may still be the most likely to come to the Kremlin's rescue in any eleventh-hour deal to buy the majority stake.

As Russia's largest company, Gazprom has the deepest pockets. The government also has powerful political leverage over Gazprom, in which the state still owns a 40 per cent stake.

Russian industrialists said last week that the government was trying to strong-arm Gazprom into bidding for Rosneft through a combination of financial and political incentives, such as de facto tax breaks and promises to retain current management.

South Africa calls in Kroll to help combat organised crime

By Victor Mallet in Johannesburg and Jimmy Burns in London

Organised crime and corruption in South Africa is such a problem that the government has called in private-sector consultants to help train its police and military intelligence agents.

Kroll Associates, the international business investigation and risk management agency, this week launched a year-long programme of seminars for the security forces about how to tackle the problem, which is worrying foreign governments and investors in the country.

"You've got somewhat disorganised crime in South Africa that's beginning to organise, and highly organised crime coming in from the outside," says Tommy Helsby, chairman of Kroll's London-based operations. South African police say there are more than 190 organised crime syndicates in the country.

Johannesburg and other cities have become trans-shipment points for the international narcotics trade, with heroin and other drugs coming from Asia and Latin America and going to Europe and the US.

Criminal gangs are also involved in the car hijackings and armed robberies that have plagued the country since apartheid began to crumble.

Sydney Mufamadi, South Africa's minister for safety and security, told the Financial Times yesterday that there was growing evidence of international crime syndicates operating in the country. Suspects from Brazil, Bulgaria, Nigeria and elsewhere had been arrested, he said.

"Syndicates are increasingly targeting South Africa as a theatre for their operations and it is important for our people involved in the fight against crime to be trained in the most advanced techniques," Mr Mufamadi said.

Kroll has flown in some of its most senior managers to launch the seminars. Kroll says they include Norb Garrett, who spent 30 years with the US Central Intelligence Agency and now heads Kroll's Europe, Middle East and Africa division; Steve Vickers, head of the Asian region, who was in charge of criminal intelligence for the Hong Kong police; and Tom Cash, Kroll's South American chief, who headed the US Drug Enforcement Administration's operations in Miami.

Kroll will train members of the South African police, the National Intelligence Agency (responsible for domestic security), the South African Secret Service (which gathers foreign intelligence), and the prosecution services. It is working with the NIA's own training academy on the programme.

One problem is that previous white minority governments allowed a criminal culture to develop within South Africa's own security forces in the battle to evade economic sanctions, generate additional, secret income, and defeat the African National Congress guerrilla movement, which is now in power. They also allowed the formation of gangs, especially in the Cape Town area, if they were seen to be hostile to the ANC and its supporters.

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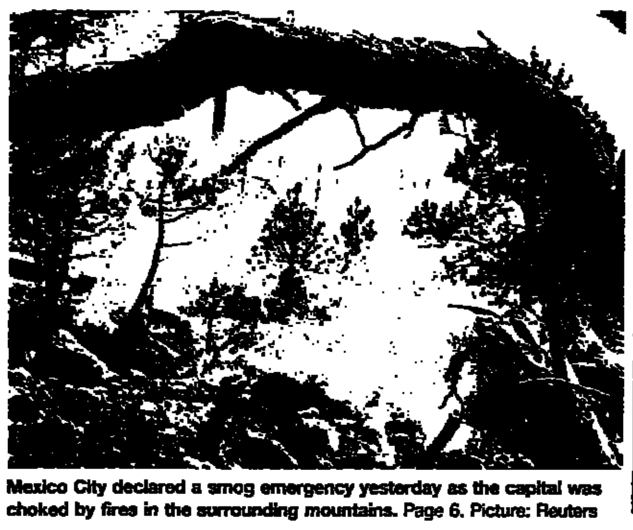


Mexico City declared a smog emergency yesterday as the capital was choked by fires in the surrounding mountains. Page 6. Picture: Reuters

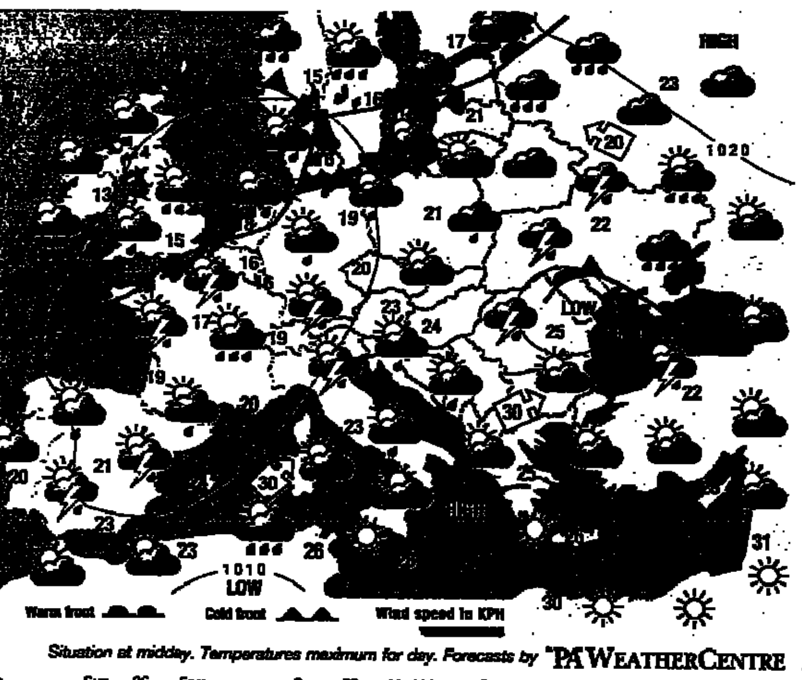
FT WEATHER GUIDE

Europe today

Scandinavia, north-west and western Europe will have showers, some heavy and thundery. Scattered, heavy showers will develop over the Iberian peninsula with a few isolated thunder storms, but much of Portugal and southern Spain will stay dry. The Mediterranean will have plenty of sunshine and the east will be hot, but isolated showers will affect parts of Italy and the Balkans. Thundery showers in the Black Sea area will spread across Russia, but much of eastern Europe will have sunny spells.

Five-day forecast

Heavy rain and thundery showers over western Europe will spread eastwards across more central parts with the south-east becoming wet later. South-east, central and north-west Europe will stay showery into the weekend, but most other areas will turn dry with some sunshine.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	38
Accra	Fair	31
Algiers	Fair	31
Amsterdam	Shower	18
Athens	Sun	25
Atlanta	Shower	30
B. Aires	Fair	18
B.ham	Shower	13
Bangkok	Thunder	36
Barcelona	Rain	21
Beijing	Cloudy	27
Belfast	Shower	13
Belgrade	Fair	25
Berlin	Shower	18
Bermuda	Shower	24
Bogota	Thunder	20
Bombay	Fair	34
Brussels	Thunder	18
Budapest	Fair	24
C'hagen	Shower	18
Cairo	Sun	36
Caracas	Cloudy	33
Cardiff	Shower	14
Casablanca	Fair	21
Chicago	Fair	29
Cologne	Shower	18
Dakar	Fair	27
Dallas	Sun	34
Delhi	Sun	43
Dubai	Sun	41
Dublin	Shower	13
Dubrovnik	Sun	23
Edinburgh	Shower	13
Faro	Sun	22
Frankfurt	Shower	19
Geneva	Shower	19
Gibraltar	Sun	24
Glasgow	Shower	14
Hamburg	Shower	18
Helsinki	Fair	17
Hong Kong	Cloudy	27
Honolulu	Fair	30
Istanbul	Fair	23
Jakarta	Fair	33
Jersey	Shower	15
Johannesburg	Sun	21
Karachi	Sun	36
Kuwait	Sun	42
L. Angeles	Fair	20
Las Palmas	Fair	24
Lima	Cloudy	20
Lisbon	Fair	24
London	Shower	16
Lux.bourg	Rain	18
Lyon	Shower	21
Madeira	Fair	20
Madrid	Shower	22
Majorca	Fair	24
Malta	Sun	26
Manchester	Shower	14
Manila	Thunder	34
Melbourne	Sun	20
Mexico City	Sun	31
Miami	Shower	32
Milan	Thunder	20
Montreal	Fair	21
Moscow	Cloudy	23
Munich	Shower	18
Nairobi	Cloudy	26
Naples	Fair	24
Nassau	Thunder	31
New York	Sunny	29
Nice	Shower	20
Nicosia	Sun	32
Oslo	Shower	15
Paris	Thunder	17
Perth	Shower	21
Prague	Shower	21
Rangoon	Cloudy	34
Reykjavik	Fair	9
Rio	Thunder	26
Rome	Shower	23
S. Frsco	Shower	16
Seoul	Fair	27
Singapore	Cloudy	33
Stockholm	Cloudy	16
Strasbourg	Thunder	19
Sydney	Sun	21
Tangier	Cloudy	22
Tel Aviv	Fair	31
Tokyo	Shower	26
Toronto	Fair	24
Vancouver	Fair	15
Venice	Fair	22
Vienna	Fair	23
Warsaw	Fair	22
Washington	Fair	28
Wellington	Shower	12
Winnipeg	Rain	13
Zurich	Shower	19

FINANCIAL TIMES
COMPANIES & MARKETS
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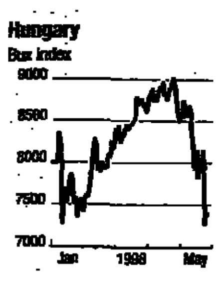
Week 22

INSIDE

Coca-Cola plans to create global network of bottlers

The Coca-Cola Company of Atlanta is building a worldwide network of anchor bottlers to ensure its soft drink products are within "an arm's length of desire". Its latest move is the planned flotation in London of Coca-Cola Beverages. Covering 13 countries in central and eastern Europe, it is set to prove particularly interesting to investors. Page 24

Budapest stocks recover ground



Calm returned to the Budapest stock market as the Bux index rallied 1.8 per cent to 7,408 after Monday's 8.7 per cent tumble. Investors were influenced by news that Fidesz, the centre-right party that won most seats in the general election, is to offer the finance minister's post to Zsigmond Jarai, Budapest stock exchange chairman and chief executive of ABN Amro (Magyar) Bank. Page 38

Czech telecoms group raises $134m

Ceske Radiokomunikace, the telecommunications, radio and television company, became the first Czech group to raise capital through a $134m public international equity offering. Page 26

Dollar revives on D-Mark weakness

The US dollar strengthened against the D-Mark during trading on foreign exchanges following currency turmoil in eastern Europe. The dollar also continued to rise against the yen. Page 27

Reuters ready for second US assault

Reuters, the UK information group, plans to break into the US equities market four years after its first attempt. But the task looks tougher than ever because, with fierce competition over price, a war over market share has broken out. Page 19

Taiwan's oil refinery hit by scandal

Corruption scandals and accidents at Taiwan's Chinese Petroleum Corp have cast a cloud over the state oil refining monopoly before its planned $7.5bn privatisation. CPC must now overhaul its public image to attract investors. Page 18

Fruit growers aim for co-operation

Adverse effects from the El Niño weather phenomenon and collapsing Asian currencies have prompted a mood of co-operation at the first intergovernmental meeting of tropical fruit-producing and consuming nations in Thailand. Page 28

Seoul stocks fall ahead of strike

Swept by what brokers described as panic selling, Seoul stocks fell for the fourth day running. Yen weakness and plans for a two-day strike at Hyundai Motor sparked the latest round of selling. It extends to almost 20 per cent the decline on the benchmark index since last Thursday. Page 38

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MARKET STATISTICS

Liffe speeds up electronic trade plans

Futures exchange sends reform blueprint to members

By Edward Luce in London

The London International Financial Futures and Options Exchange has brought forward the planned introduction of electronic trading by six months yesterday as part of a much-awaited reform blueprint sent to members.

The move ends speculation that Liffe would buy an existing electronic system enabling it to start screen-based trading immediately. It means its electronic platform will be available by June 1999 instead of December 1999 as planned.

The exchange, which will also convert from a member-dominated structure to a shareholder-driven system under the proposals, will submit the blueprint to a vote of its 215 members on June 9.

The reforms are the most sweeping in Liffe's 16-year existence. They respond to the competitive challenge mounted by Deutsche Terminbörse, Liffe's Frankfurt-based rival, over the past 12 months. "We want to modernise the exchange and to regain the strategic initiative in the derivatives market," said Daniel Hodson, chief executive of Liffe yesterday.

As part of yesterday's package Liffe is almost certain to abandon plans to develop a large floor trading site at Spitalfields in east London. The undeveloped site, which Liffe can sell back to the City of London Corporation any time before 2001, is likely to be purchased by a third party, said Mr Hodson.

But Liffe, which has 11 separate office sites in the City, would retain the option to rent a section of the development should it need to have its premises in one building. In practice, however, senior officials at the exchange believe the move from "open outcry" to electronic trading will be quite rapid once the market is given the choice next year. This would remove the need for a larger trading floor in Spitalfields.

Under the blueprint, Liffe will convert to a normal profit-seeking organisation which pays dividends to its shareholders. Shareholders will no longer be required to be members, although traders on the open outcry system will still be required to be members. The board has no plans for an initial public offering in the near future.

Leading market participants yesterday responded mostly positively to the proposals, which have come after several weeks of negotiation between board members.

"Liffe is taking positive steps to modernise itself," said one banker. "The decision to open up share ownership to outsiders is positive and will give locals [floor traders who speculate with their own capital] a nice windfall if they want to sell."

Some bankers criticised Liffe for failing to go further than yesterday's proposals. Participants were disappointed that Liffe was unable to introduce its electronic platform in advance of European monetary union.

Lex, Page 16

Usinor to pay $625m for stakes in Brazilian steelmakers

By Jonathan Wheatley in São Paulo

Usinor, the French steel group, is to buy stakes in two Brazilian steelmakers in the first significant foreign entry to Brazil's steel industry since its privatisation in the early 1990s.

It is expected to lead to further restructuring of the industry, which many observers say has suffered from complex cross-ownership and a lack of global players.

Usinor is to pay R$720m ($625m) for a 30 per cent stake in Acesita, a maker of speciality steels and, indirectly, a 16 per cent stake in CST, a small *producer of steel* slabs with big growth potential. Usinor raised an earlier bid of R$624m in response to a rival proposal by CSN, Brazil's biggest steel group, in conjunction with Thyssen Krupp of Germany.

Mário Van Erven of Fonte Cindam, a Rio de Janeiro investment bank which advised Usinor on the purchase, said the deal would lead to increased competition for higher value-added steel products in Brazil and overseas.

"There will inevitably be competition with CSN and Usiminas [Brazil's second biggest steel group]," he said. "Acesita and CST will also use Usinor's global network to reach new export customers."

At present, CST makes only steel slabs, an intermediary product sold to other steel makers. It has plans to increase annual production from 3m to 4.5m tonnes from the second half of this year. It also plans to invest in a hot rolling mill to make higher value-added products *from* 2000. Mr Van Erven said CST's target would be to sell 1m tonnes of hot milled products on the domestic market and 1m tons abroad.

He said the emergence of a third significant force in the Brazilian industry would lead to further deals: "This is the first step in restructuring the widespread cross share holdings in the industry."

Analysts say investment in the industry has been held up by its ownership structure, under which the two biggest groups, together with iron ore giant Companhia Vale do Rio Doce (CVRD) and big pension funds, hold minority stakes in almost all companies.

Jakarta's plans to reform oil monopoly welcomed

By Gwen Robinson in Jakarta

A move by the new Indonesian government of Yusuf Habibie to overhaul the state oil company Pertamina and review its exclusive oil-and-gas-related marketing arrangements was welcomed yesterday by foreign companies.

Kuntoro Mangkusubroto, minister of mines and energy, said the review would improve *competition, efficiency* and transparency in Indonesia's oil trading business.

Oil traders said it could provide access to Indonesia's relatively closed business of distribution of oil products to a population of 200m, as well as related shipping and trading opportunities.

Lucio Noto, chairman of Mobil Corp of the US, said during a visit to Singapore that if Indonesia could create "a level playing field" Mobil would consider distribution there. "If the right kind of refinery capacity became available at the right price, I would not close my eyes to it."

Some industry analysts expressed reservations about whether Pertamina had the experience to operate on its own. For nearly two decades, the company has relied for its oil and gas trading operations on affiliated companies linked to family and friends of former president Suharto, who stepped down last week.

Perta Oil Marketing, based in Singapore, is partly owned by Mr Suharto's youngest son, Hutomo "Tommy" Mandala Putra, and Mohamad Hasan, a former cabinet member.

Permindo Oil Trading, based in Hong Kong, is majority-owned by Mr Suharto's second son, Bam Bang Trihatmodjo, and associates.

The two companies trade special allocations of Indonesian crude oil and other petroleum products and are Pertamina's exclusive agents for importing gas oil and jet fuel.

In addition, the two sons hold lucrative long-term contracts with Pertamina for tankers to transport gas to other Asian countries.

While Indonesia is a net oil-exporting country, it imports 15-20 per cent of its annual average consumption of 52m kilolitres of fuel, including an estimated 200,000 barrels per day of crude to feed its refineries and 130,000b/d of gas oil and 42,000b/d of fuel oil.

The two Suharto-controlled affiliates reportedly receive commissions of up to 35 cents US per barrel from Pertamina for oil imports in a business estimated to earn up to $200m a month.

Two other Pertamina affiliates, Pacific Petroleum Trading, based in Japan, and Indonesian Petroleum, in Korea, hold some direct purchase contracts outside the exclusive arrangements.

Under the government's plan to reform the state monopoly, Pertamina would establish its own trading division to handle crude oil and fuel imports, and expand its fledgling marketing operation. While it was not expected to sever links with the Suharto-controlled affiliates, it planned to open up these areas to competition.

"We are in the spirit of reform; there are many things in Pertamina to be reviewed, including its operations," said Mr Mangkusubroto. "We will revoke inefficiency. We want fair business."

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VW vows to roll over any BMW roadblocks to R-R Motors deal

By Haig Simonian in Wolfsburg

Ferdinand Piëch, chairman of Volkswagen, is determined his group can overcome any obstacles to the purchase of Rolls-Royce Motor Cars raised by rival bidder BMW.

Mr Piëch said that if shareholders of Rolls' parent company Vickers choose to sell the luxury carmaker to VW next week, his group will be ready to replace the BMW engines used in new Rolls-Royce saloons with its own engines "from July 1 next year".

"From then we will be able to replace some famous engines with some even better ones of our own. We have alternatives for all these in hand," he said.

BMW, which has bid £340m ($555m) for Rolls-Royce Motors against VW's £430m, apparently has threatened to exercise its right to halt supplies of its eight and 12-cylinder engines with a year's notice.

In an interview with the FT, however, Mr Piëch said that re-engineering the Rolls-Royce Silver Seraph and Bentley Arnage saloons to take VW engines "would not be too difficult to do". Nor did he believe sales of the new models would be affected by the engine change – VW's alternative engines would simply have to be "a bit better than what is in today's cars".

He said the change of engines could boost sales as the motors would be built by Cosworth, the specialist racing engine subsidiary of Vickers. Mr Piëch said British buyers, who make up the bulk of Rolls-Royce Motors customers, would prefer cars with British-built engines rather than those with BMW power plants.

Classic lines: Rolls-Royce prototypes in the company's new assembly hall at its Crewe plant in the UK

"As we did with Seat and Skoda ((VW's Spanish and Czech subsidiaries)), so Rolls-Royce must be British. That is what the customer expects," he said.

If Vickers also sold Cosworth to VW, Mr Piëch said it would be expanded to build engines and do foundry work for the German group's executive car subsidiary, Audi, which is facing production bottlenecks. He said VW could also use Cosworth to develop high-performance versions of engines used by VW's other brands.

Cosworth engines already power some sporty Ford models, as well as some Rolls-Royce vehicles, and its customers, notably Ford, could oppose its sale to a competitor. This has led some analysts to suggest that VW might come to an agreement allowing Ford to maintain its association with Vickers for performance engines.

Mr Piëch said he was confident VW would reach agreement with Rolls-Royce plc, the aero engine maker which owns the right to the Rolls-Royce Motors brand name.

"I'm convinced Rolls-Royce plc wouldn't let this shop close down," he said. Moreover, he argued that continuation of the Rolls-Royce brand on luxury cars was "probably more important for the image of the aero-engine maker than vice versa".

He said he had been impressed with the modernisation of the luxury carmaker's Crewe factory, which he had first visited eight years ago. "We wouldn't have offered to buy it if we didn't think it was any good," he said.

He also said he had enjoyed driving the new Silver Seraph and Arnage, particularly the sportier Bentley model.

Buying Rolls-Royce Motors, he said, would allow VW to make a range of cars for almost every taste and pocket, from a small car capable of travelling 100km on a litre of petrol to luxury vehicles costing DM1m ($570,000) or more.

Decaux may bid again for More

By Andrew Edgecliffe-Johnson in London

Decaux, the French bus shelter and billboard group, said yesterday that it may try to top a £475m ($793m) offer from US media group Clear Channel for More Group if it is allowed to return to the bidding competition.

Decaux, whose £11.10 per share offer for the UK outdoor advertising company was referred to the UK Monopolies and Mergers Commission last Thursday, said it would bid £12.20 in cash – or £522m – if cleared. The indicative offer is subject to the unusual proviso that the FTSE All-Share Index must not fall by more than 10 per cent by the time the MMC delivers its verdict.

Shares in More Group rose 16p to £11.38½ – compared to Clear Channel's £11.10 revised bid. Analysts said More's directors were unlikely to withdraw their recommendation from the US group, which has a 17 per cent stake in More.

Roger Parry, More's chief executive, invited Jean-François Decaux, Decaux's chairman, "to explain why he thinks in six months time he will be able to do this". More's board is expected to meet Decaux on Thursday.

Mr Parry said the board remained committed to getting "the highest possible real offer" for shareholders. Mr Decaux said, however, "they have always preferred the American bid".

He added: "I think More Group has a lot of responsibility for the fact our bid got referred." He said he was disgusted to hear that More employees celebrated news of the reference with champagne.

Clear Channel said that its offer represented certainty, whereas it might be Christmas before shareholders received the cash from a second Decaux bid. Mr Decaux said he believed the bid could be completed by October.

Clear Channel claimed that it would be difficult for the MMC to contradict the statement from Nigel Griffiths, the UK's competition and consumer affairs minister, that the local authority street furniture market "can be regarded as a separate market", within outdoor advertising and that a Decaux bid would create competition concerns.

Decaux is thought to have received unofficial guidance before it made its bid that the Office of Fair Trading would find no competition concerns.

Mr Decaux said only that he was confident that the MMC would allow it to re-bid, and that Decaux had banking facilities to do so. "We're not dead yet," he added.

Mr Decaux added that the Local Government Association had not written to the OFT about the bid because only 10 per cent of its members had voiced any opinion about it.

Jean-Claude Decaux, Mr Decaux's father and the 100 per cent owner of the company, said two weeks ago that he had to be persuaded by his son to make the original bid. His son said yesterday: "It was not too difficult to convince my father this weekend." His father would not have committed the company to the bid if he were not "totally on board".

Charles Smith of BT Alex.Brown, bankers to Clear Channel, said that Decaux's tentative offer was "flaky" and "just a spoiling tactic".

CARS 'BREAKTHROUGH' CLAIMED AS JAPANESE GROUP PREDICTS FIRST PROFIT SINCE 1994

Mazda sees 'challenging' markets

By Paul Abrahams in Tokyo

Mazda, the Japanese automotive group, yesterday forecast no sales growth in any of the world's big markets this year.

"This is going to be a very challenging market for Mazda and all automotive manufacturers," said Gary Hexter, senior managing director of Mazda, in which Ford of the US holds a 33 per cent stake.

He expected the Japanese car market would contract further this year, after a 19 per cent fall last year. However, Mazda lifted its market share last year from 4.8 per cent to 5.1 per cent – the first increase in six years – and Mr Hexter predicted it would reach 5.7 per cent this year.

He forecast Mazda would achieve a consolidated net profit of Y30bn ($219m) this year, the first profit since 1994 and the best result since 1985.

"Four years ago, this company was haemorrhaging cash and structurally unstable. This is a breakthrough," he said. Return on equity would be 8 per cent this year and the board intended to propose a full-year dividend of Y4, the first in six years.

In the year ending March 31, consolidated net losses fell 61 per cent to Y6.5bn. Sales rose 7.8 per cent to Y2,041bn.

The company would continue to attack debt vigorously, said Mr Hexter. Debt had fallen from Y398bn to Y394bn and would decline to Y324bn this year.

The reduction in net losses was partly the result of a fall in restructuring charges at affiliated companies.

A further contribution came from a sharp reduction in losses at non-consolidated affiliates and subsidiaries, dropping from Y17.9bn to Y6.5bn.

Mr Hexter said this was because Mazda Motor of America had been consolidated in the figures for the first time.

Losses at the North American operations narrowed from Y19.8bn to Y10bn and Mr Hexter predicted a profit of Y10bn in the current year.

About $40m of costs had been taken out of the North American businesses alone.

Mazda expected to be profitable in Japan, Europe and the US this year. Net profits in Japan, up from Y7.5bn to Y12.3bn last year, would reach Y30bn this year.

In Europe net losses last year widened from Y1.7bn to Y3.1bn, partly because of the strength of the yen, but the region should achieve a profit of Y500m this year, said Mr Hexter.

There were some signs that Asia was stabilising, especially countries where Mazda was strong, such as Thailand, the Philippines and Taiwan, he said.

Japanese metals producer declines

By Bethan Hutton in Tokyo

Mitsubishi Materials, the non-ferrous metal and ceramics producer, yesterday reported a decline in consolidated earnings for the last financial year.

Pre-tax profits dropped 30.5 per cent to Y23.92bn ($174m), while net profits fell 31.7 per cent to Y10.07bn. However, sales crept up, from Y1,190bn to Y1,200bn.

Consolidated sales for the current year are expected to hold steady at Y1,200bn, while pre-tax profits should grow 4.5 per cent to Y25bn, but net profits will be virtually flat at Y10bn.

The results may be affected by difficult conditions in Asia, where Mitsubishi Materials has operations including a copper smelter under construction in Indonesia.

Mitsubishi Materials earlier this month announced plans to change company rules to allow a possible buy-back of up to 18.8 per cent of its shares.

● Mitsubishi and Mitsui, Japan's two largest trading companies, yesterday released consolidated results in line with US accounting standards, after releasing parent-company results last week.

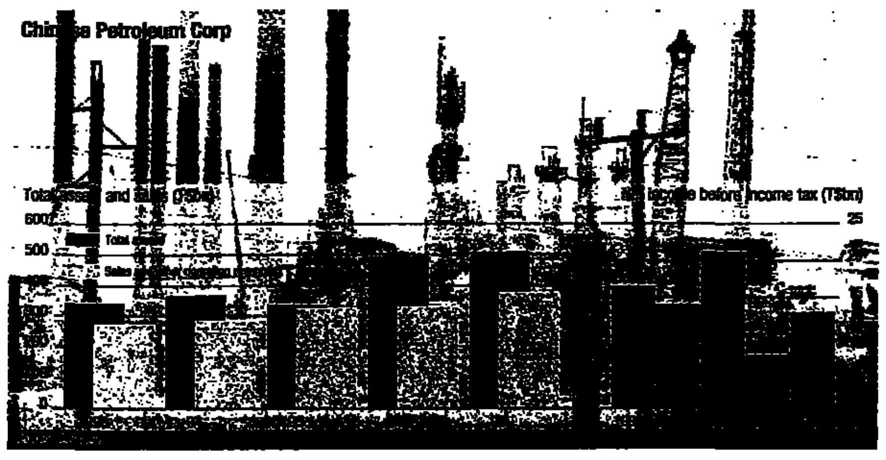
Mitsubishi said profits from international transactions, and from consolidated operations at home and overseas, offset lower earnings from the parent company.

However, it remained cautious about the current year, seeing adverse conditions in Japan and Asia. It predicted almost flat sales and profits for the year to mid-March 1999.

For the year just ended, revenues rose slightly to Y15,830bn, but operating profits fell 25 per cent to Y51.03bn, owing to higher costs. Pre-tax profits also declined, by 34.3 per cent to Y63.24bn, but net profits improved 7.3 per cent to Y47.64bn.

Scandal casts cloud over CPC

Concern about oil giant's post-privatisation future is mounting, writes **Laura Tyson**



Corruption scandals and a string of accidents at Taiwan's Chinese Petroleum Corp have cast a cloud over the giant state oil refining monopoly ahead of its planned $7.5bn privatisation.

According to Roy Chiu, vice-president, the troubled company can begin selling shares and list on the stock exchange in April 1999 at the earliest. The privatisation is to be carried out in three phases and completed in 2000.

But CPC will have to overhaul its management structure and public image if it is to attract investors, following revelations of high-level corruption in recent weeks and several fatal explosions in the past year.

"There are serious concerns about CPC's management and safety," says Scott Weaver, petrochemicals analyst at ING Barings. "They will need to build up some credibility before launching overseas issues."

There are also questions as to whether the lumbering CPC will be able to compete effectively once its monopoly is dismantled.

For example, Formosa Plastics, a petrochemicals concern and Taiwan's biggest private industrial group, will soon enter the oil refining and petrol distribution sectors long controlled by CPC.

Mr Chiu is confident, however, that privatisation will benefit the 50-year-old company. "CPC has been run as a vehicle for government policy, and we faced many restrictions," he says. "But soon we will be able to spin off unprofitable businesses and enter new and profitable areas."

Foreign investors will be permitted to buy up to 15 per cent of the company's shares in the second tranche, which may take the form of Global Depositary Receipts.

The remaining tranches – amounting to 35-45 per cent of the company – will be earmarked for Taiwanese investors and employees.

The company is also seeking strategic investors and has been in contact with Middle Eastern oil companies about the possibility of alliances.

Once privatised, CPC plans to become a fully integrated petrochemical concern and to diversify into areas as disparate as telecommunications, power generation, property development, shipping and inland transportation.

The company is also looking for partners to help launch telecoms and electronic media ventures. CPC aims to use idle lines in its fibre-optic cable network across the island to move into businesses such as cable television and the internet.

At the moment, the company is "re-engineering" its information systems, decision-making processes and organisational structure in preparation for privatisation. It is also preparing to establish several new lines of business immediately following privatisation.

McKinsey, the management consultancy, has prepared a report on the company's restructuring, while Andersen Consulting has been retained to study its information systems.

To prepare for privatisation, CPC plans to cut its 20,000 workforce by one-quarter through early retirement incentive programmes.

After privatisation, CPC will expand from its existing upstream oil refining and naphtha cracking operations into downstream businesses, both producing new products and forging alliances with downstream petrochemical companies.

"We want to become a fully integrated petrochemical company," says Mr Chiu, who admits CPC is worried about competition from Formosa Plastics, which is now building a giant petrochemical and naphtha cracking complex in central Taiwan.

The liberalisation of Taiwan's energy sector began several years ago. From January 1999, private companies will be permitted to import fuel oil, liquefied propane gas and jet fuel. On July 1 2000, the market will be completely deregulated and private companies will be allowed to import freely all petrochemical products.

Once Formosa's new facilities start production, there will be an excess of petrol produced in Taiwan, so some will have to be exported to other Asian countries. Diesel fuel is already in oversupply.

CPC will use its 14 oil tankers and 700 trucks to launch shipping and trucking companies. In the southern port of Kaohsiung, the company plans to convert a 50-hectare plot it owns into a shopping, entertainment and hotel complex.

PNB convertible issue to raise up to $250m

By Justin Marozzi in Manila

Philippine National Bank, one of the country's largest commercial banks, yesterday announced plans to raise up to $250m through a convertible bond issue and said it hoped to be fully privatised within the year.

Peter Favila, PNB president, said at the annual shareholders meeting that he had urged President Fidel Ramos to dispose of the government's 45 per cent stake to enable the cash-strapped bank to raise capital. "We hope to see it [privatisation] in place this year," he said.

Edgardo Espiritu, who is set to become finance secretary when Joseph Estrada takes office as president on June 30, favours the early disposal of government interests in several companies, including PNB.

Yesterday, the bank opted to postpone elections for a new board until July, by which time the new administration will be in office.

PNB also plans to return to the capital markets for the first time since the Philippines was hit by the currency crisis last July. Valentin Araneta, chief operating officer, said the $200m-$250m convertible bond offering, deferred from last year, would take place in 1998.

Assuming the government, which is in a tight fiscal position, does not subscribe, analysts said its stake would be reduced to about 25 per cent, allowing a takeover of the bank. Metro Pacific, the Philippine flagship of Hong Kong-based First Pacific, is seen as a potential buyer.

Ismael Pili, banking analyst at Indosuez W. I. Carr in Manila, said PNB was attractive to investors because of its nationwide branch network and the strength of the country's financial sector in comparison with neighbours such as Thailand and Indonesia.

PNB has fallen out of favour with analysts since the onset of the Asian crisis. Many believe the outlook will improve only with a new partner to inject capital. They point to the bank's high foreign debt and property exposure as well as its poor asset quality.

At 6.4 per cent, its non-performing loans were the worst in the sector in 1997, said Mr Pili. Mr Favila said he hoped to reduce that to 5.4 per cent by the year-end.

Shares in PNB ended unchanged yesterday at 75.5 pesos.

HK Telecom to transfer accounts

By Louise Lucas in Hong Kong

Hongkong Telecom, the territory's dominant carrier, is to surrender some of its global accounts to its parent Cable and Wireless, of the UK, as part of a new arrangement aimed at enhancing competitiveness.

Hongkong Telecom will service the Asian "leg" for these accounts and other companies on an exclusive basis, and C&W will in turn extract a "global services management fee" of 17.5 per cent of the revenues achieved from its subsidiary.

Donald Hess, company secretary, said the deal would position the group to service multinationals looking for global services.

"Companies that can act globally are expected to realise the benefits of excellent growth opportunities in this sector," he said in a statement to the Hong Kong stock exchange.

Hongkong Telecom in effect becomes a supplier to C&W unit Cable & Wireless Global Markets. It will also provide technical and administrative services in connection with the global business, for which it will charge CWGM cost plus 5 per cent.

It will initially hand over 31 customer accounts to CWGM, pending customer approval, with further transfers expected. CWGM becomes a "one-stop shop" for multinationals' telecoms needs.

The move comes as Hong Kong itself prepares for a new era of competition: from January 1, Hongkong Telecom loses its international direct-dial calls monopoly.

Analysts said the deal highlighted the increasing tendency for C&W to assume a greater role within Hongkong Telecom.

China remains the big untapped telecoms market, which C&W hoped to pioneer after it sold part of its holding in Hongkong Telecom to China Telecom, the operational arm of the mainland's former Ministry of Posts and Telecommunications.

However, no deals have so far emerged for either of the two companies, although Hongkong Telecom may be close to securing a cellular network agreement. C&W has pledged to sell further stakes to China Telecom.

Mr Hess said the new arrangements would result in smaller payments being made to CWGM by Hongkong Telecom, which in the year to March 1997 paid about HK$110.5m (US$14.3m) in fees related to global account management. Had the new arrangements applied then, the cost would have saved a net HK$47m, he said.

The revenues from the 31 global accounts being transferred were HK$421m in the year to March 1997, 1.3 per cent of total turnover or 1.4 per cent of the book value of tangible assets.

NEWS DIGEST

TELECOMS

India's MTNL lifted by higher call volumes

Mahanagar Telephone Nigam (MTNL), India's biggest domestic telecoms operator, lifted pre-tax profits last year, as the number of telephone calls made in the country grew in spite of the economic slowdown.

MTNL, which has a monopoly on basic telephone services in Bombay and Delhi, yesterday announced an 8 per cent rise in profits to Rs10.7bn ($261m) for the year to March 31. The increase was driven by higher call volumes, resulting from a 395,000 increase in the number of subscribers.

Revenues increased 14 per cent to Rs45.7bn, but higher salaries contributed to a 23 per cent rise in costs to Rs23.9bn. The company's wage bill jumped more than 30 per cent following a government-mandated pay increase, but analysts said the fall in margins was "much less than expected" because of cost cuts in the second half.

The results will reassure investors after MTNL's failure to win a cellular phone licence and the threat of competition in Bombay from Hughes Ispat, a newly licensed joint venture between Hughes of the US and the Mittal family. A revision of tariffs has also been put back by about a year.

Since 1994, MTNL has nearly doubled the number of lines in Delhi and Bombay, from 1.8m to 3.4m. Even today, however, fewer than one in five people in these cities own a telephone, providing opportunities for further expansion.
Krishna Guha, Bombay

OIL

Japanese groups slide

Shrinking profit margins and deregulation in Japan's oil industry sparked restructuring to cut costs and streamline distribution last year, but results from two industry giants suggested the reforms have yet to pull the sector out of its downward spiral.

Mitsubishi Oil, the distributor, reported unconsolidated net earnings down 82 per cent to Y28.3bn ($206m) in the year ending in March. Sales fell 4.5 per cent to Y1,073bn. The group, which blamed the results on falling crude oil and domestic retail petrol prices, recorded Y25.67bn in tax charges and penalties associated with a corruption case last year.

Consolidated after-tax profits at Nippon Oil, Japan's largest oil company, slid 8.7 per cent to Y11.48bn, on sales down 1.3 per cent to Y2,626bn. The tax charge rose 20.3 per cent to Y14.8bn.

The results masked problems that would trouble the sector for several years, analysts warned. "I think Mitsubishi Oil is a better indicator of what is happening at the oil companies," said Lalita Gupta, oil analyst at Deutsche Morgan Grenfell in Tokyo.

With retail petrol prices at record lows, the oil industry has scrambled to cut costs through tie-ups and restructuring. The big oil groups aim to turn the cost cuts into earnings increases in the current year. Nippon Oil, which is maintaining its Y7 dividend, expected net earnings to increase to Y10bn, on sales of Y2,540bn. Mitsubishi said it expected to break even, with sales of Y1,060bn. The company added it would not pay a dividend.

However, until the industry significantly reduces capacity, low oil prices should continue to offset cost-cutting, analysts said. "No oil company can fight against market forces. The market moves much faster than their restructuring plans," said Mizue Hosokawa, oil analyst at SBC Warburg.
Alexandra Harney, Tokyo

PETROCHEMICALS

IPCL hit by overcapacity

Profits at Indian Petrochemicals plummeted 54 per cent last year, battered by the country's industrial slowdown, weak international prices and severe overcapacity at home.

In the year to March 31, pre-tax profits fell from Rs5.9bn to Rs2.7bn ($66m), the company announced yesterday. The results would have been even worse but for a 44 per cent jump in other income to Rs1.1bn. Analysts said the picture was "pretty disastrous". IPCL was not able to increase its prices to match higher operating costs, interest and depreciation due to fierce competition.

Revenues were up 7 per cent at Rs29.8bn. But costs rose 21 per cent to Rs 23.3bn, while interest was up 27 per cent at Rs2.6bn and depreciation charges were 60 per cent higher at Rs2.4bn. As neither global overcapacity nor domestic overcapacity was likely to disappear in the next few months, the current outlook for IPCL was "grim", analysts said.
Krishna Guha

INDIA

Tobacco group jumps 35%

Profits at Indian Tobacco Company jumped 35 per cent last year as strong growth in the core cigarette business offset the costs of an ill-fated move into financial services. The results confirm a strong recovery by the company, which is India's biggest cigarette producer and has interests in hotels, property, paper and packaging.

Pre-tax profits rose 35 per cent to Rs7.9bn ($192m), on turnover up 15 per cent at Rs69.3bn, for the year to March 31. The result was helped by a 32 per cent fall in interest costs, to Rs810m. However, the company said its withdrawal from financial services "involved a significant financial outlay of almost Rs8bn".

It said competition in speciality papers was "severely impacting margins". ITC is seeking an international partner in papers. It is also pushing ahead with plans to roll out State Express 555, a cigarette brand owned by British American Tobacco, under a new licensing arrangement. This follows the launch of Benson and Hedges in February. The company hopes its international brands will "curb the grey market" for illegally imported cigarettes, which it said was growing at 25 per cent a year. **Krishna Guha**

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CANADA THREE GROUPS POST SOLID INCREASES IN PROFITS

Banks report strong second-term results

By Edward Alden in Toronto

Canada's banks posted record performances in the second quarter of this year, with three of the country's top five showing strong increases in profits and revenues.

The Royal Bank of Canada and the Bank of Montreal, which have announced their intention to merge, both beat analysts' expectations for earnings per share, while the Bank of Nova Scotia shook off concerns about its international exposure to post solid gains as well.

The advances occurred in all important segments of the banks' business, with strong growth in personal and commercial banking, wealth management, investment banking and offshore operations.

While some analysts had anticipated a slight dip in the banks' return on equity – a measure watched closely by the markets – all three beat expectations in this respect as well.

The performances will further enhance the banks' claims that they are poised to become strong international operators, though it could weaken their argument that mergers are needed to remain profitable as Canada opens up to greater international competition.

Two of the other top five banks, the Canadian Imperial Bank of Commerce and the Toronto-Dominion Bank, have also said they plan to merge. Both proposals face stiff public opposition and must be approved by the Canadian government.

The Royal Bank, Canada's second largest bank, had a return on equity of 19.7 per cent in the second quarter compared with 19.5 per cent last quarter and 19.4 per cent a year ago. Net income rose to C$464m ($320m), a 15 per cent increase on the second quarter of 1997, on revenues of C$2.7bn.

Earnings per fully diluted share were C$1.36, up 15 per cent from the previous year and slightly above analysts' estimates.

The Bank of Montreal, the third largest bank, reported an 18 per cent return on equity, compared with 17.2 per cent in the second quarter of 1997. Net income was up 20 per cent to C$377m on revenues of C$1.9bn. Earnings per fully diluted share were C$1.32, compared with an estimate of C$1.23 for analysts surveyed by First Call.

Scotiabank, Canada's fourth largest, reported a 16 per cent return on equity, down from 16.7 per cent a year earlier. Net income rose 15 per cent to C$346m on revenues of C$2bn. Earnings per share rose from 58 cents to 66 cents.

All three banks appear to have coped with the effect of the Asian financial crisis and done well in offshore markets.

The Royal Bank reduced its total exposure to Asia by 15 per cent to C$9bn and saw only a slight increase in impaired loans.

The Bank of Montreal posted a C$31m increase in earnings outside Canada, led by increased profits at the recently acquired Harris Bank, of the US.

Reuters prepares second assault on US equities

With price competition becoming fierce, a war over market share has broken out, writes Richard Waters

Four years after mounting its first attempt to break into the US equities market, Reuters is ready for another try. But after marking time for much of the 1990s, the task looks tougher than ever.

The UK information company made its first push through the acquisition of Quotron in 1994. That service foundered badly under its previous owner, Citicorp, and though Reuters has stopped the decline, it has done little to build on its acquisition.

The number of Quotron screens in use, at 42,000, is more than 4,000 higher than four years ago. But during a period when the market has been growing at an annual rate of nearly 10 per cent, that represents a shrinking slice of the market (though Reuters claims another 13,000 US users of its separate equity market information product, part of the Securities 3000 service).

With competition over price becoming fierce, a war over market share has now broken out.

ILX, owned by Thomson, the Canadian media group, has 112,000 screens in North America, according to Waters Information Services, a US financial data research company. That gives it a large proportion of the estimated 300,000 screens used by equity traders, brokers and investors. (The figures do not include primarily fixed-income services such as Bloomberg.) In a consolidating industry, that larger base should confer a distinct advantage.

"We are a lower-cost producer to begin with, and can spread our costs over a much larger customer base to preserve margins," says Bernie Weinstein, head of ILX.

The market has already shifted to reflect this. The price of commodity services, like basic price quotations, has "gone very low, very quickly," says Davis Gaynes, an executive vice-president at Reuters America.

ILX – like Automatic Data Processing before it – is moving to cement its customers, most of whom are in retail brokerage offices or on trading desks, by adding a back-office trade processing service to its front-office data business.

These pressures have driven Reuters, which inherited a similar customer base, up-market. The search for customers willing to pay higher prices – including the "buy-side" institutions where it has traditionally been weak – has taken it into more direct competition with Bridge and Bloomberg.

> **If ADP were to sell, none of the three main rivals left in the equity business could afford to be left out of the bidding**

The new Reuters Plus service, formally launched last week, at least gives the company a fighting chance. Reuters executives had talked at the time of the Quotron acquisition of using their strong position in international financial markets to help resuscitate the ailing network.

That has now given way to a different approach: a push deeper into the domestic US equity market, with the inclusion of more data and analysis on US stocks. The market for international data in the US remains specialised, with most international money managed by a relatively small number of big investment institutions, says Mr Gaynes.

This push may be four years late. "It looks a catch-up product," says one rival, dismissively. But it still represents a shift to greater market segmentation that should leave the UK company in a stronger position in the US market. "They're going from trying to be all things to all people, to developing specific vertical markets," says another rival.

Even if Reuters Plus is the product that the company has long needed to unlock the US equity market, however, it will take time to make an impression. Customers typically sign long-term contracts, leaving little scope for growth in the short term.

That leaves only one quick way forward: through another acquisition.

Further consolidation in the financial data industry looks inevitable. In the fixed income market, Dow Jones' sale of the former Telerate business has handed 90,000 screens to the most aggressive consolidator, Bridge, which already had about 54,000 equity screens.

In equities, ADP, with about 84,000 screens, is said by rivals to have canvassed interest from potential buyers for its own quote service.

The company, which generates about one-quarter of its revenues from the brokerage industry, most of it from back-office services, refuses to comment.

A disposal by ADP is far from certain. Primark, a US financial data company which informally put itself on the block earlier this year, this month reversed course after possible buyers balked at the price.

But if ADP were to sell, none of the three main rivals left in the equity business – Reuters, Bridge and ILX – could afford to be left out of the bidding.

For Reuters, at least, such a purchase would represent the long-delayed second plank in a strategy that began with the purchase of Quotron.

EU, US take common line on telecoms merger

By Samer Iskandar in Brussels

The European Commission yesterday said its decision on whether to authorise the $37bn merger between MCI and WorldCom, the US telecommunications groups, would be announced with US anti-trust regulators.

Karel Van Miert, competition commissioner, said both regulators were co-operating closely. "We are trying to obtain the same concessions," he told the European Parliament's economic and monetary affairs committee.

A Commission official, however, said an exception would be made if US regulators prolonged their investigation beyond July 15, the deadline for a decision by the Commission. There is no time limit on the US investigation, which is led by the Justice Department.

The Commission's main concern is that the merged company would have a dominant position in the market for internet access.

Mr Van Miert yesterday reiterated his view that the merger would "lead to a dominant position in the supply of top level internet connectivity".

His comments followed the EU's dismissal of claims by Bernie Ebbers, chief executive of WorldCom, that the Commission had accepted the company's method of calculating market share.

"These allegations are simply not true," said the Commission.

Mr Ebbers argued the combined shares of WorldCom and MCI in the internet market were less than 38 per cent, based on revenues.

Rival groups – including GTE, which has taken legal action to try to stop the merger – claim WorldCom-MCI would control more than 50 per cent of the global internet market.

● WorldCom, the acquisitive US telecommunications group, has formed a strategic alliance with General Electric Information Services, also of the US, which will give it management control of GEIS' global communications network. Financial terms were not disclosed, writes Alan Cane.

NEWS DIGEST

TRUCK RENTAL

Ryder System to sell UK leasing business

Ryder System, the US truck rental and logistics company, is planning to sell its UK leasing business and concentrate on logistics management – in line with its general strategy outside the US.

The company said it was looking for a cash sale of the UK operations, which had revenues of about $392m in 1997, and total assets of $460m.

Schroders, the international investment bank, has been called in to handle the sale, which Ryder is looking to achieve by the third quarter of this year. Ryder said yesterday it was already "in discussions with a number of interested parties", although these were not identified.

The US group added that the sale did not mean it would cease to service global logistics customers in the UK – but rather that it would focus on the management of these operations and outsource the physical handling of goods.

"This announcement does not signal Ryder's intention to leave the UK ... We will continue to serve certain of our existing, global integrated logistics customers in the UK, and we expect our logistics business in the UK and Europe to grow," said Anthony Burns, chief executive.

The company, which has been restructuring recently and sold its automotive carriers division last year, already has operations in continental Europe targeted at logistics management rather than truck leasing.

Nikki Tait, Chicago

INSURANCE

Canada Life buys Crown unit

Canada Life Assurance, the country's fourth largest life insurance company, announced yesterday it was buying the insurance operations of Saskatchewan-based Crown Life Insurance. The purchase will increase the total assets of Canada Life by C$5bn to C$45bn (US$33bn), but leave it smaller than the top tier of Canadian insurance companies.

The acquisition, the ninth in four countries since 1992, will double Canada Life's individual life business in the US.

Canada Life, which has thousands of policyholders in the UK, last month became the fourth Canadian insurance company to announce its intention to demutualise and become a publicly-traded company.

Crown Life policyholders will not be eligible for participation in the demutualisation plan.

Edward Alden, Toronto

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CONTRACTS & TENDERS

ENTERTAINMENT POLYGRAM PRESIDENT EXPECTED TO DECLINE SEAGRAM JOB OFFER

Bronfman to meet Lévy in London

By Alice Rawsthorn

Edgar Bronfman Jr, Seagram chief executive, will fly to London today to meet Alain Lévy, president of PolyGram, to discuss whether he will stay on following Seagram's $10.6bn takeover of his company.

Mr Bronfman, who will also meet PolyGram's senior executives in Europe and Asia during his visit, is expected to offer Mr Lévy the post of running all Seagram's music interests outside North America.

However, Mr Lévy is thought unlikely to accept that proposal, which would involve Doug Morris, head of Seagram's Universal Music subsidiary, being put in charge of the North American side of the business.

Mr Lévy, who has had sole charge of PolyGram as a publicly quoted company, is credited with having turned it from a sluggish classical music business into the world's largest record company and Europe's biggest film group.

He is understood to be reluctant to accept a diminution of his responsibilities. Mr Lévy might also be concerned about Mr Bronfman's close rapport with David Geffen, the billionaire US music mogul, who has offered informal advice to Seagram throughout its bid for PolyGram, and is expected to continue to influence its music strategy.

Mr Lévy would be entitled to substantial compensation if he left the group. Seagram agreed last week to give him a $100m discretionary fund to be distributed among members of PolyGram's team who will stay after the bid and whom he believes have helped build the business.

After merging PolyGram with Universal Music, Seagram will become the world's largest music group. However, it needs to act swiftly in finalising a new management structure to restore staff morale and start making the $250m-$300m of annual savings it hopes to derive from the merger.

At a meeting with PolyGram's North American executives in New York last Friday, Mr Bronfman said he hoped the managements of the two music companies would work together to map out a new structure "within weeks not months". He is expected to repeat that message in London.

It could take four to six months for Seagram to secure clearance from US anti-trust authorities before it can complete the acquisition. PolyGram and Universal executives are concerned that the delay could destabilise their businesses during the important pre-Christmas sales season.

Seagram intends to sell PolyGram's film division. Executives of the division met in Los Angeles yesterday to discuss the disposal.


Alain Lévy: reluctant to accept diminished responsibilities

NEWS DIGEST

HEALTHCARE

Two deaths lead Gambro to recall blood tubes

Incentive, the industrial arm of Sweden's Wallenberg business empire, said yesterday its Gambro healthcare subsidiary had recalled 15,000 blood tube lines used in dialysis treatment following the death of two patients in the US. The company, which manufactures dialysis products and operates renal care clinics in North America, confirmed the patients had died after tubes carrying blood from dialysis machines had developed obstructions.

Thirty patients were taken ill, and the two deaths occurred at a clinic in Maryland. Damaged blood tubes have been discovered at six clinics in Maryland, Massachusetts and Nebraska. Incentive, which is planning to rename itself Gambro this summer, said costs arising from the problem would be covered by product liability insurance. "Every effort is being made to identify the root cause of the defect and to take actions that will prevent any such reoccurrence in the future," said Incentive. It added that it was co-operating with investigations by the US Food and Drug Administration and state health officials.

In the meantime, the company has halted production of blood tubing sets at its plant in Mexico and is sourcing new products from other suppliers. Some 31,000 patients in the US currently use Gambro products. Incentive's most commonly traded A shares fell SKr22 to SKr683.
Tim Burt, Stockholm

GERMANY

Preussag jumps to DM402m

Preussag, the German conglomerate, yesterday revealed a sharp rise in interim profits, reflecting growth across all divisions and a one-off gain from the sale of its steel activities. Group net profit in the six months to March climbed from DM159m to DM402m ($227m) on sales up from DM11.8bn to DM12.3bn. The company said its Hapag-Lloyd tourism business was fully consolidated during the period, as was TUI. The three divisions – energy and commodities, technology and logistics, and tourism – recorded pre-tax profit before extraordinaries of DM345m; there was an extraordinary profit of DM320m from the sale of its steel activities.
AFX News, Hanover

STEEL

Thyssen rises 37% in first half

Thyssen, the Düsseldorf-based steel and engineering group, lifted first-half pre-tax earnings 37 per cent to DM863m on a 24 per cent rise in group turnover, to DM22.3bn. Group operating profit more than doubled after allowing for the extraordinary effects of restructuring last year.

Thyssen's steel interests contributed most to the profits and achieved the strongest growth within the group. It said steel profits could double this year, reflecting higher prices and benefits from the creation of Thyssen Krupp Stahl, the joint flat-steel venture with Krupp, the Essen-based engineering group due to merge with Thyssen this year.

It forecast further "very satisfactory" business in the months ahead and a sharp increase in group earnings from current business for the whole year to September 30. In a strong German market, Thyssen shares closed DM7.10 higher at DM470.90 at the end of floor trading in Frankfurt yesterday.
Peter Norman, Bonn

ISRAEL

Koor blames fall on slowdown

Koor Industries, Israel's biggest holding company, yesterday blamed a broader economic slowdown for a 81 per cent fall in first-quarter net income, to $11.2m, or 15 cents a share. Revenues fell 7 per cent to $834m.

The building materials operations were hit hard by the slowdown. Telrad, its telecoms subsidiary, suffered from a fall in domestic sales, and one-off write-offs and expenses took $14m off net profits. Jonathan Kolber, vice-president, who will become chief executive on July 1, said Koor continued to hive off non-strategic assets and aimed to secure long-term annual income growth of 15 per cent. He said second-quarter profits would be buoyed by $55m in capital gains.
Avi Machlis, Jerusalem

PAPER

Acquisition helps lift Sappi

Sappi, the South African paper group that plans a New York listing this year, yesterday reported a long-awaited turnround with a 90 per cent rise in operating profits to R1.05bn ($204.5m) for the half-year to March.

The group, which recently restructured into two main operating entities – Sappi Fine Paper, based in London, and Sappi Forest Products – was helped by its acquisition of KNP Leykam, Europe's largest producer of coated paper. The inclusion of three months of trading from KNP Leykam contributed 41 cents to earnings of 201 cents a share. It reported earnings per share of 42 cents at the interim stage last year. Consolidated sales rose 43 per cent to R10.2bn, largely because of the inclusion of KNP Leykam. **Greta Steyn, Johannesburg**

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MAN vehicles group aims to retain its independence

By Haig Simonian in Ankara

MAN Nutzfahrzeuge, the German commercial vehicles group which has been the subject of persistent takeover speculation, is determined to retain its independence in spite of the consolidation sweeping the industry.

Klaus Schubert, chairman, said in an interview: "I believe MAN is a very strong player with every possibility of surviving through internal growth."

He said the company, which will announce its results in October, would report a big jump in profits for the year ending June 30. While turnover would increase by about 10 per cent to "well over" DM8.5bn ($4.8bn), "the rise in profits will be substantially higher than that in sales".

The company's sales volume in 1997-98 surged from just under 41,000 units to "close to 50,000", he said. Mr Schubert said he did not exclude the possibility of MAN Nutzfahrzeuge, part of the MAN industrial group, merging with another truckmaker. However, he said: "For the time being, I do not see any possibilities. So we are really focused on maintaining our competitiveness and on growing."

He denied the company was in talks with Renault VI, the truckmaking subsidiary of France's Renault group. Earlier this week, Shemaya Lévy, Renault VI chief, said his company could be interested in strategic co-operation with MAN.

● Opel, General Motors' German subsidiary, and Suzuki, the Japanese motor group, plan to develop together a new small car to be built in Poland and Hungary, writes Graham Bowley in Frankfurt.

The project – which had been widely expected – will represent the closest co-operation yet between the two vehicle companies.

Opel plans to invest an extra DM375m at its new plant in Gliwice in Poland to build the new car.

It said yesterday it would take on an additional 1,000 people on top of the existing 2,000 workforce and would more than double annual output at the factory from 70,000 to 150,000 cars.

Suzuki would use its factory in Esztergom, Hungary. Production is due to start at the beginning of 2000. Each company would market the car under its own brand name in Europe.

The car would be targeted at the small so-called A-segment market, below Opel's existing Corsa model, where rival car groups such as Ford and Fiat are already well established.

Ford introduced its Ka model a few years ago and German rivals Daimler-Benz and Volkswagen are also planning their own small cars.

Koç offer to raise up to $300m

By Vincent Boland

Koç Holding, Turkey's biggest family-controlled conglomerate, said yesterday it would tap international investors next month by launching the country's largest private-sector share offering to date.

Goldman Sachs, the US investment bank which has been advising Koç on restructuring, will lead-manage an offering of new and secondary shares valued at up to $300m and representing about 10 per cent of the company, which is already listed on the Istanbul stock exchange.

The Koç share issue is one of several high-profile deals from Turkey this year and follows the Turkish government's successful sale last month of a stake in Isbank for $600m.

Bankers said Koç would begin investor roadshows in mid-June, with pricing of the issue expected in early July.

All the shares, which include 1.25bn new shares and 138.5m being sold by Koç family interests, will be aimed at international institutions, and will be quoted on Seaq International.

The Koç family is one of Turkey's leading business dynasties, and owns about 80 per cent of Koç Holding. Its business empire is similar in size to that of the Sabancı family, although the latter is mainly involved in financial services.

Koç Holding, in contrast, is a diversified industrial group, and employs 44,000 people mainly in the automotive, consumer durables and financial services sectors.

Koç will use the proceeds of the international share offering to finance its expansion into existing and new fast-growth businesses, including retailing, energy and telecommunications.

It has teamed up with SBC Communications, the US telecoms group, to bid for a strategic stake of 20 per cent in Turk Telecom, the national telephone company which will soon be privatised.

ITALY CARMAKER AND MEDIOBANCA TO SPIN OFF NEARLY 57% OF QUOTED GROUP VIA OFFER TO INSTITUTIONS AND RETAIL INVESTORS

Fiat to sell controlling interest in Snia

By Paul Betts in Milan

Fiat, the Italian carmaker, plans to spin off its controlling stake in Snia BPD, the quoted fibres, chemicals and biomedical holding group, as part of a refocusing on its core automotive activities.

The Turin car group and Mediobanca, its traditional banking ally, will next month sell nearly 57 per cent of Snia's ordinary shares, worth about L1080bn ($620m) at current market prices, through a combined offer to institutional and retail investors.

The deal marks a radical change in the business approach of Fiat and Mediobanca and will transform Snia into the first true public company in Italy.

"This type of public offer involving a US$1.5bn company is quite common in the US – it is unique in Italy," said one Milan banker.

"This is completely novel for Mediobanca and a cultural revolution for the bank. In the past they would have stitched up a deal behind closed doors with another group of core shareholders," said another investment banker.

Mediobanca and J.P. Morgan will act as global co-ordinators for the offer. Fiat and Mediobanca will both retain 1 per cent in Snia to assist it in its transition to a free-floating share structure.

Fiat acquired control of Snia 14 years ago during its diversification drive. However, it later decided to refocus on its core businesses.

It tried to shed Snia three years ago through the controversial and ill-fated attempt to dissolve the company and merge its activities in the proposed "Super Gemina" holding.

There had been speculation that Fiat and Mediobanca were considering a break-up of Snia and the sale of its three main quoted subsidiaries – Snia specialty fibres, Caffaro specialty chemicals, and Sorin biomedical.

There was also speculation that Fiat and Mediobanca would dispose of Snia by selling control to another group. However, by opting for a public offer, the two have signalled a more Anglo-Saxon approach to business.

The deal coincides with the retirement next month of Cesare Romiti, Fiat chairman, who will now be able to crown his 24 years by launching Italy's first sizeable publicly-held company.

Telecom Italia, which was privatised last year, is sometimes regarded as a public company but the Treasury continues to be its single largest shareholder.

After extensive restructuring, Snia returned to profit five years ago and has seen its net income, excluding minorities, grow steadily from L11bn in 1993 to L107bn last year.

ABN Amro bid puts Fortis on the spot

By Neil Buckley in Brussels

Just when the fate of three of Belgium's largest companies seemed to have been decided, in the country's biggest corporate shake-up for years, ABN Amro's surprise move yesterday opened a whole new set of questions.

Fortis, the Belgo-Dutch financial services group which last week made an agreed $11.1bn offer for Générale de Banque, was facing the thorniest decisions. Should it raise its bid for Générale, possibly sparking a bidding war? If not, what should it do with the 35 per cent of Générale it already controls?

Some analysts suggested Fortis would bow out. Beating ABN Amro's offer – itself a 15.3 per cent premium over Fortis's original offer, based on Monday's share prices – would force it to pay such a high price that the deal could dilute earnings.

Fortis emphasised last week it had never made a dilutive acquisition, and did not plan to start now. Fortis shares have fallen since last week's bid was announced, reflecting the market view that the offer was overpriced – but rose yesterday.

Some market-watchers, however, suggested Fortis had put too much effort into its deal with Générale to let it slip away.

"It is not impossible that they could make a counter-bid," said Ludo Colman, banking analyst at Smeets, Verbaet in Antwerp. "This is a strategic issue. If they don't get Générale, it will go to their biggest Benelux competitor. That puts pressure on management."

Some also pointed out that with 35 per cent of Générale already under its control, Fortis had only to acquire 6 per cent more to block ABN Amro's stated intention of getting at least 50 per cent. If that failed, analysts suggested Fortis should sell its 35 per cent to ABN Amro and use the capital gain elsewhere.

Fortis said it was premature to say whether it would make a new bid, and that its original offer was still "interesting for all constituencies, internally and externally". It will use annual general meetings at its Belgian and Dutch arms this morning to make its intentions clear.

Générale de Banque's 28 directors, meanwhile, meet today to discuss both last week's bid from Fortis, and the ABN Amro offer. For the six directors who make up Générale's management committee, led by Ferdinand Chaffart, chief executive, the Dutch bid is probably not unwelcome – even if it was not actively invited.

The bank's managers are known to have been unhappy with the Fortis deal up to the moment it was backed by the full board on May 12, and to have been talking to other potential partners, including ABN Amro, only days before.

But, for the moment, Générale's board still includes six directors from its former biggest shareholder, Société Générale de Belgique, the Belgian holding company. SGB agreed last week to cede its 29.2 per cent stake in the bank to Fortis, under the same terms as Fortis's public share-swap offer.

Since SGB has not yet received the consideration for the shares, however, its directors remain in place. They may not be happy to see Générale go to ABN Amro.

The Fortis-Générale link was part of a broader restructuring by SGB's parent, France's Suez Lyonnaise des Eaux, which last week launched an offer for the 36.5 per cent of SGB it does not already own.

The twin operations were designed to leave a merged Suez-SGB with a single stake in an enlarged Fortis. If Générale de Banque ends up under control of ABN Amro, Suez-SGB could be left with a stake in a rather smaller than expected Fortis.

Générale unit faces sale if offer succeeds

By Gordon Cramb in Amsterdam

ABN Amro is likely to have to sell Générale Bank Nederland, the Dutch unit of its Belgian bid target, if the Fl 24.5bn ($12.5bn) offer for Générale de Banque succeeds.

Jan Kalff, ABN Amro chairman, said yesterday he thought the competition authorities "would not agree" to what would represent a further concentration in the domestic banking market. ABN Amro is the Netherlands' biggest banking group, with 3.5m retail clients from a population of 15.7m.

GBN ranks fourth in the Dutch market, behind ING as well as Fortis, the Belgo-Dutch group that yesterday saw its own offer for Générale trumped by Mr Kalff. Analysts yesterday named Germany's Deutsche Bank as one potential buyer.

If, however, Fortis returned with a successful counter-bid, it could take GBN as a consolation prize, allowing it to extract favourable terms for a business that would boost its still patchy presence in Dutch commercial banking.

GBN is the former Netherlands operation of Crédit Lyonnais, the French state-owned bank that is a candidate for privatisation.

Jan Kalff: sees objection by competition authorities

ABN Amro, fresh from its rejection as a bidder for the rival CIC, declined to say whether an acquisition of Générale would increase its chances of winning Crédit Lyonnais.

Générale itself has significant operations in France, while the non-French units Crédit Lyonnais is required to shed are seen as too small to interest the Dutch group.

But Mr Kalff added: "If the question is whether we have enough financial leeway to undertake another transaction in the same fiscal year, the answer is yes."

To finance the proposed takeover of Générale, ABN Amro is to issue 314m new shares representing 18.3 per cent of its expanded equity.

Through a special-purpose vehicle, it plans also to place some Fl 6.5bn-worth of preferred stock, mainly in the US.

ABN Amro is offering 19 of its shares plus BFr9,000 cash for each share in Générale. The shares to be issued would qualify for a full 1998 dividend. On the basis of Monday's closing prices, it is pitched at a premium of 15.3 per cent to the bid by Fortis.

That comprised an offer of seven shares in Fortis AG, its Belgian arm, for every three in Générale. ABN Amro maintained yesterday that the roughly one-third cash component enhanced the attraction of its own bid. It valued its offer at BFr27,095 per share, compared with BFr23,501 for that of Fortis.

However, with Fortis holding commitments amounting to 32.7 per cent of Générale's equity, it may prove difficult to budge.

Shares in the two Fortis companies fell in early trading yesterday, but by the close Fortis Amev, the Dutch side of the group, was up Fl 2.40 to Fl 126.90, while Fortis AG ended BFr675 higher at BFr10,900.

ABN Amro shares, which had opened stronger on the news, shed 70 Dutch cents on the day to close at Fl 51.30.

NEWS DIGEST

RETAILING

Costs of expansion depress Metro 13%

Metro, the German group that is Europe's biggest retailer, said yesterday net profits fell 13 per cent to DM623m ($353m) last year, mainly because of restructuring and start-up costs linked to its European expansion. However, it struck an upbeat note after the sharp slowdown in consumer demand it predicted in December failed to materialise.

Metro had warned that profits were expected to be about 25 per cent lower last year because of weakness in the German economy. However, since then, conditions were seen to be better and Metro cut its estimate of the profits slowdown by half. "The consumer climate in Germany is not going to go back any further. It is going to recover somewhat," it said.

Sales last year rose 3.4 per cent to DM64.1bn. Metro said it would raise its dividend to DM2 for each ordinary share, from DM1.57 in 1996. *Despite the overall decline in profits,* Metro said that according to the German DVFA method of calculation, earnings per share rose to DM3.19 from DM2.96 in 1996. It said profits were burdened by start-up costs of about DM122m last year. Metro ruled out a capital increase but said it planned to launch a convertible bond of between DM1bn and DM2bn in the next few weeks.

The company, which has warned of a "comprehensive shake-out" in European retailing, is attempting to build a wide European retail network. Klaus Wiegandt, chairman, said yesterday: "We are well prepared for European competition."
Graham Bowley, Frankfurt

TELECOMMUNICATIONS

Telekom details cable split

Deutsche Telekom yesterday detailed plans for splitting up its extensive cable TV operations, as a precursor to talks with partners in at least six new regional companies. Partners could include investment banks, the German telecoms operator said. By hiving off its cable operations into a new fully owned subsidiary and then dividing it into regional operations, Deutsche Telekom said it hoped to put the loss-making business on a sounder economic footing. It denied the move, announced last November, was intended to pre-empt any action by regulators in Brussels worried about its dominant position. Deutsche Telekom has 17m cable customers but the operations lost more than DM1bn ($566m) last year.
Ralph Atkins, Bonn

FRANCE TELECOM

Sommer set to join board

France Telecom shareholders, meeting in Paris for the company's first annual general meeting since last year's part-privatisation, were set last night to name Ron Sommer, Deutsche Telekom chief executive, to the French group's board. The move may be a prelude to an exchange of shareholdings between the two operators. Michel Bon, France Telecom chairman, indicated yesterday such a move was still envisaged.

Yesterday's meeting, with between 2,000 and 4,000 shareholders present in one of the biggest AGMs ever by a French company, marked a defining moment in the history of popular capitalism in France. The shares closed last night at FFr349, against an issue price for retail investors of FFr182.
David Owen, Paris

TRANSPORT PERFORMANCE FROM $674M DUTY FREE ACQUISITION 'DISAPPOINTING'

Asian crisis curbs BAA rise

By Michael Skapinker

BAA yesterday announced annual pre-tax profits up per cent to £480m ($800m) but the airports group said it had endured a "tough" year, with the strong pound and the Asian crisis holding back its attempt to build an international business free from the constraints of UK regulators.

Russell Walls, finance director, said the initial performance from Duty Free International, the US business which BAA bought last year for $674m, had been "disappointing". Asia's financial downturn led to a fall in duty free goods sold on board flights across the Pacific.

BAA's shares fell 15p to 663p.

Mr Walls said the new duty-free business had won in-flight contracts from two European airlines. BAA would also use the increased size of its duty-free division to win lower prices from suppliers. "We have no reason to believe that it will not be earnings enhancing by the end of year three, after goodwill amortisation," he said.

Sir John Egan, chief executive, said BAA was in a state of transition. It had built new businesses which were free from the strict regulatory regime which kept landing charges artificially low at its London airports. It was now in a position to profit from the new businesses.

In addition to the new duty-free business, BAA has expanded its railway activities, with the Heathrow Express from London's Paddington station due to begin full operations next month. The service, in which BAA has invested £450m, will make an operating profit in its first year and would be profitable after financing charges in its fourth year.

The group would be bringing new institutional partners into its BAA-McArthur/Glen retail outlet joint venture. Sir John said he expected BAA to sell a part of the Cheshire Oaks joint venture within three months. BAA was also talking to European airports about managing their retailing facilities.

Revenues for the year to March 31 were up 22.3 per cent to £1.7bn. Earnings per share before exceptional items increased by 10.7 per cent to 35.3p. The exceptional items included the £102m cost of the government's windfall tax. Earnings after exceptionals were down 6.7 per cent to 26.4p. The final dividend is 8.75p, bringing the total to 13.65p (12.4p).

Siebe plans Nemic shake-up

By Paul Abrahams in Tokyo and Andrew Edgecliffe-Johnson in London

Siebe, the UK engineering group, is trying to oust the chairman and most of the directors of Nemic-Lambda, a Tokyo-listed power controls company in which it holds a 50.6 per cent stake.

The British company has put forward an alternative slate of 17 directors which excludes Rikihiro Madarame, founder, chairman and president of the control systems group. On the list are 10 employees from Siebe or affiliated companies and six line managers at Nemic-Lambda. Shareholders will be asked to choose between the list and that being promoted by Mr Madarame at the company's annual meeting on June 25.

The move is the latest round in a struggle for control of Nemic-Lambda, during which Siebe has made allegations of "unacceptable conduct" against Mr Madarame.

He, in turn, accuses the British company of being "a 19th century colonising power." Mr Madarame wrote in a recent letter to employees: "It has taken all my energies to protect our company from being a pawn in an international money game."

Siebe has alleged conduct in possible violation of both Japanese law and of its own codes of conduct. The allegations are being investigated by the statutory auditors. Mr Madarame and his family own about 11 per cent of the company.

Siebe acquired its majority stake two years ago, as part of an agreed bid for Unitech of the UK. It has become increasingly concerned about Mr Madarame's management style and the group's financial performance.

In the year to March 1997, Nemic-Lambda's pre-tax profits, excluding exceptionals, fell more than 55 per cent to Y1.5bn on sales down 23 per cent at Y20.5bn. In the past two years the stock has fallen 66 per cent, underperforming the Topix index of all first section shares by more than 50 per cent.

Siebe is concerned that Mr Madarame may attempt to protect his position by trying to make an allocation of shares to friendly third parties at a substantial discount to the current share price. This could have the effect of diluting Siebe's stake to below 50 per cent.

Mr Madarame is portraying the struggle as a battle between competing ideologies – western capitalism against a more compassionate Japanese system.

Siebe said yesterday: "We don't barge in and take over. We have always tried to keep local nationals running our subsidiaries, and we are very conscious of the local culture."

RESULTS

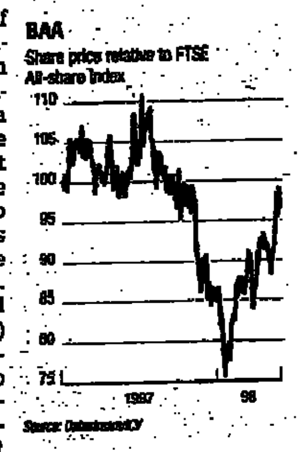
		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
BAA	Yr to Mar 31	1,679	(1,373)	480♥	(407)	26.4‡‡	(28.3)	8.75	Aug 6	7.9	13.65	12.4
Belhaven Brewery	Yr to Mar 29	38.3	(33.3)	5.03	(3.92)	18.1	(14.4§)	4.1	Aug 3	3.7	6.2	5.6
City of London PR	Yr to Mar 31	2.68	(2.45)	0.952♥	(1.02♥)	9.27	(9.43)	4.29	July 28	3.9	6.16	5.6
Coffee Republic Φ	Yr to Mar 31	1.1	(0.374)	0.743L♠	(0.048♥)	1.91L†	(0.15)	-	-	-	-	-
Eldridge Pope	6 mths to Mar 31	31.8	(30.9)	1.79	(1.5)	6.2	(5.6)	2.3	July 31	2.12	-	6.1
Hill Hire	Yr to Mar 31	27.1	(21)	5.28	(3.04♠)	15.4†	(8.57)	2.94	Aug 1	2.67	4.4	4
Kunick	6 mths to Mar 31	77.1	(70.2)	4.82	(4.32♠)	0.88‡	(0.65)	0.425	July 10	0.35	-	0.85大
McLeod Russel	6 mths to Mar 31	59.7	(55.9)	4.52	(4.22)	5.54	(5.08)	3.1	July 31	3	-	7
Network Technology	6 mths to Mar 31	10.4	(8.54)	2.27	(1.81)	4.33†	(4.04)	0.55	July 6	0.5	-	1.25
Treatt	6 mths to Mar 31	10.5	(10.7)	0.774	(0.267♠)	5.6	(1.9)	2	Oct 6	1.9	-	6
Trinity Care Φ	Yr to Mar 31	13.8	(10.2)	0.944	(0.882)	15.2†	(16.3)	3.7	Aug 11	3.4	5.3	5
Unidare ♣	6 mths to Mar 31	70.9	(58.7)	3.7	(3.02)	12.9	(10.7)	4.8	July 31	4.6	-	17.4
Wilmington	Yr to Feb 28	38	(31.6)	5.72	(4.17)	5.58	(3.89)	1.44	July 3	1.2	1.44	1.2

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aberdeen Emerging	6 mths to Mar 31	80.34	(100.8☆)	0.216L	(0.168L)	0.43L	(0.34L)	-	-	-	-	nil
Buchanan Special $	Yr to Dec 31	1909	(1871)	0.612	(5.51)	37.9	(340.5)	-	-	-	-	-
Dunedin Smaller	6 mths to Apr 30	493.5	(417.6★)	1.31	(0.794)	7.77	(4.72)	3.5	June 19	3	-	10
F&C Special Utils	6 mths to Mar 31	136.7	(115.5☆)	0.859	(0.921)	1.72	(1.84)	1.73	June 29	1.57	-	5.18

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ‡‡‡On reduced capital. ΦAim stock. ‡‡Includes windfall tax. 大Includes foreign income dividend element. §Pro forma. ♣Irish currency. ☆At September 30 1997. ★At October 31 1997. $US currency.

COMMENT

BAA



BAA has become a victim of its own success. The company has shown how much can be squeezed out of privatised airports, and the idea has caught on around the world. But BAA is finding it tougher to take part in these sell-offs, as prices climb beyond its reach. BAA's answer has been to redefine what its core skills are. Retailing (duty-free) and transport (a train service) now come under this expanded category. It will be two years before BAA's acquisition of Duty Free International enhances earnings. It will be four years before the Heathrow Express moves into profit, so it is still early to judge the wisdom of either. Passenger forecasts for the Heathrow Express do not sound wildly improbable, but rail forecasts can be slippery numbers. DFI, renamed WDF Americas, may prove the ideal retail showcase, as it pitches for more US airport concessions. But its contribution to yesterday's figures was certainly underwhelming. For the next couple of years, though, it will be passenger volumes and passenger retail spend which will drive BAA's business. Buoyancy in the former shows no signs of abating, demonstrating that the operator can live without Terminal 5 for some years yet. Retail spending may take a knock after intra-EU duty free is abolished, but a weaker pound should compensate. With a core business running this smoothly, it is a wonder why BAA is in such a rush to go shopping elsewhere.

Mirror Group

Mirror Group is sitting pretty. For years, it was spurned by the City, which chased most media stories except the national tabloid one. Mirror Group diversified. But its shares failed to respond to more regional newspapers and cable TV. The industry is less snooty. It now appears that Mirror has both domestic merger potential and a would-be foreign suitor. Although talks with Trinity International have ceased, the logic is clear. It would take the company further into the regional newspaper business – building on the integration trick Mirror has already performed with Midland Independent Newspapers. The greater gamble, not for Mirror but its possible acquiror, Axel Springer, would be a trans-European deal. Cost savings would be an obvious synergy. But pan-European advertising? That would be a challenge.

Trinity and Mirror talks break down

Tentative merger talks between Mirror Group, the tabloid newspaper publisher, and Trinity International Holdings, the UK's largest regional newspaper group, have broken off, writes Cathy Newman.

Mirror, which has been the subject of intense bid speculation since last week's announcement that Axel Springer, the German group, was considering mounting a takeover, said discussions with Trinity had been at a "very exploratory stage". It is understood that Trinity did not wish to compete in an auction against Springer, and agreed with Mirror that the discussions would stop.

David Montgomery, Mirror's chief executive, had a telephone conversation with Gus Fischer, chairman and chief executive of Springer, over the weekend. But Springer has not tabled a formal bid.

OTE

HELLENIC TELECOMMUNICATIONS ORGANIZATION S.A. (OTE) AMD SUBSIDIARIES

Condensed Consolidated Financial Statements Prepared under International Accounting Standards as of December 31, 1997 (in millions of Greek Drachmas)

CONSOLIDATED BALANCE SHEET

Assets	
Intangible assets, net	14,469
Fixed Assets	
Telecommunication Property, Plant and Equipment	1,550,020
Less: Accumulated Depreciation	(635,862)
	914,158
Investments	143,595
Other non current assets	36,984
Deferred income tax benefits	63,386
	243,965
Current Assets	
Cash and cash equivalents	184,031
Accounts receivable	233,901
Materials and supplies	13,943
Other current assets	68,366
	500,241
	1,672,833

Shareholders' Investment & Liabilities	
Shareholders' Investment	
Share Capital	340,237
Paid in Surplus	239,143
Reserves and retained earnings	319,266
	898,646
Minority Interest	16,093
Reserves for staff retirement and other employee benefits	168,184
Other reserves and long-term liabilities	19,818
Long-term debt	128,802
Subsidies, net of amortization	110,240
Current Liabilities	
Bank loans and overdrafts	10,088
Accounts payable	64,531
Income taxes payable	66,742
Dividends	100,061
Other current liabilities	89,448
	330,870
	1,672,833

CONSOLIDATED STATEMENT OF OPERATIONS

Operating revenues	809,439
Operating expenses	(513,873)
Operating profit	**295,566**
Financial, net	8,797
Gain on sale of investment	11,000
Other, net	(4,088)
	15,709
Profit before income taxes	311,275
Income taxes	(113,421)
Profit after tax	197,854
Monthly interest	84
Net profit for the year	**197,938**

MOVEMENT IN SHAREHOLDERS' INVESTMENT

Shareholders' investment, January 1 as previously reported	615,866
Fixed asset register adjustment	(3,635)
Shareholders' investment, January 1 as restated	612,231
Net profit for the year	197,938
Capital increase	23,738
Paid in surplus, net of share issuance expenses	164,542
Dividends declared	(99,803)
Shareholders' Investment, December 31	**898,646**

The major differences between Statutory and IAS financial statements relate to the accounting of staff retirement and other employee benefits, subsidies and deferred income taxes.

The finalisation of the Organisation's fixed asset register resulted to an adjustment of Drs. 3.635, which has been charged against opening retained earnings.

No comparative figures are provided as no consolidated financial statements as of December 31, 1996 were prepared.

On a mission to go for the throat of the world fizzy drinks market

John Willman analyses Coca-Cola's strategy of building a global network of anchor bottling plants

Though "Coca-Cola – Always" is the current advertising slogan for the world's favourite fizzy drink, "Coca-Cola – Everywhere" is the mantra for the The Coca-Cola Company of Atlanta, which sells almost 1bn servings a day of its cola and other soft drinks such as Fanta and Sprite.

Coke's mission is to ensure its products are within "an arm's length of desire", and it is building a worldwide network of anchor bottlers to achieve that. This week the latest piece in its global jigsaw fell into place with the announcement of the flotation in London of Coca-Cola Beverages, covering 13 countries of central and eastern Europe.

The new company will be the latest addition to the family of listed Coke bottlers, which includes Coca-Cola Enterprises of the US and Coca-Cola Amatil in the Asia-Pacific region. Coca-Cola Beverages is likely to prove particularly interesting to investors, however, because of its position in the emerging economies of Europe's former communist bloc.

"The company will offer focused exposure to the significant potential of these territories," says Neville Isdell, chairman and chief executive, who was formerly senior vice-president of the parent company.

Until the fall of communism, Pepsi-Cola was dominant in eastern and central Europe. By slotting into state distribution systems, it outsold Coke in the countries of the region by multiples of between two and four.

When the old economies crumbled, Coke allotted 10 of the eastern bloc countries to Coca-Cola Amatil, the Australia-based bottler that had been so successful in emerging Asian countries. Within a few years, it had overhauled its old rival and now outsells Pepsi two-to-one in the region.

That has been done by heavy investment in state-of-the-art manufacturing and distribution capacity – almost £500m ($835m) in Amatil's European area over the past three years.

The challenge now, according to Mr Isdell, is to shift the emphasis into building "marketplace assets" such as cooler cabinets and vending machines to raise consumption to the sort of levels seen in western European countries.

Coke believes this marketing job will be done better by a regionally based operation – hence the creation of Coca-Cola Beverages. It will take in Amatil's European operation, which includes Austria and Switzerland as well as the 10 former communist countries.

It will also acquire Coca-Cola Bevande Italia, which covers Italy from Rome northwards and is currently owned by the parent company in Atlanta. Like much of central Europe, this part of Italy is classed by Coke as a "developing territory" because average consumption per head was 93 eight-ounce servings last year – against 195 in Spain and 193 in Greece.

Austria and Switzerland have made Coke's top tier as "established territories", with more than 150 servings a head. But most of the CCB countries are well below the European Union average of 139 servings, providing plenty of room for growth.

And three countries fall into Coke's least developed category of "emerging territories": they include Ukraine, where 50m people managed to down only 18 servings each on average last year, and neighbouring Belarus where the average was 19 servings.

Neither of these two former Soviet countries has made the strides towards a market economy achieved by Poland or the Czech Republic. But Mr Isdell – a veteran in the region who helped build up Amatil's operation there – believes they are moving towards the same destination, heavily influenced by the success of their neighbours. "There will be dips," he says, "but I am confident in the future of these countries."

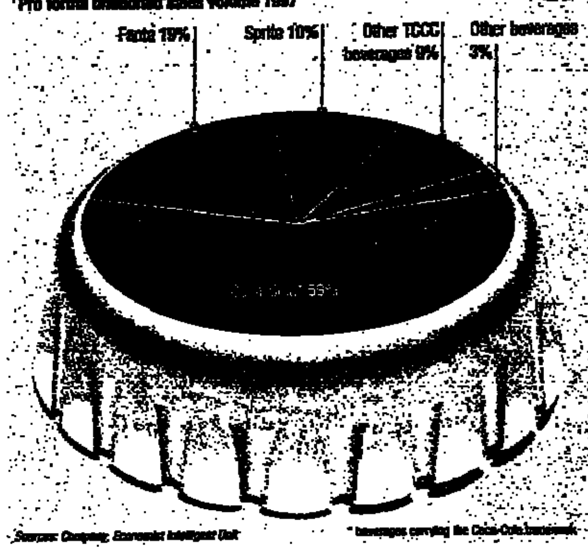
Coca-Cola Beverages: Global reach

Pro forma unaudited results 1997

	£ million
Turnover	1,202.6
Cash operating profit*	117.9
Operating profit (before non-operating exceptional items)	47.8
Net profit after tax (before non-operating exceptional items)	15.9

* Cash operating profit is defined by management as earnings before interest, tax and depreciation

Pro forma unaudited sales volume 1997



Source: Company

* beverages carrying the Coca-Cola trademark

Summary operating statistics by territory 1997

	The Coca-Cola Company (TCCC) carbonated flavoured soft drink 8oz servings per capita	Coca-Cola Beverages volume (million unit cases)	Territory population (m)
Emerging territories			
Ukraine	18	[illegible]	[illegible]
Belarus	19	[illegible]	10.2
MCF Bosnia-Herzegovina (1)	46	5	2.3
	Weighted average 18	Total [illegible]	Total [illegible]
Developing territories			
Italy (2)	[illegible]	[illegible]	[illegible]
Poland	[illegible]	70	[illegible]
Hungary	[illegible]	[illegible]	[illegible]
Czech Republic	77	37	[illegible]
Romania (2)	[illegible]	[illegible]	[illegible]
Croatia	[illegible]	[illegible]	[illegible]
Slovakia	[illegible]	[illegible]	[illegible]
Slovenia	[illegible]	7	[illegible]
	Weighted average 73	Total [illegible]	Total [illegible]
Established territories			
Austria	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]
	Weighted average [illegible]	Total [illegible]	Total [illegible]
All territories	Weighted average [illegible]	Total [illegible]	Total [illegible]

(1) Population estimate for MCF Bosnia-Herzegovina [illegible]

(2) [illegible]

His task will be to increase market share for the Coke stable in the CCB countries, already more than 25 per cent in carbonated soft drinks and as high as 70 per cent in some countries. But as in the rest of the world, Coca-Cola sees the competition as much more than just the other fizzy-drink makers: this is the group that sees the water tap as its main competitor.

So it will also aim to lift Coke's "share of throat" – currently 11 per cent of the non-alcoholic beverages market. The targets will include producers of fruit juices, tea, coffee, milk and the like.

For potential investors, then, CCB offers an intriguing punt. The attractions are obvious: it sells a consumer product with a proven track record in one of the world's faster-growing regions.

On the downside, it is exposed to the risks of operating in countries where the commitment to a market economy is often tenuous.

On the assumption that it achieves the forecast market capitalisation of about £1.5bn, however, success is probably assured. Apart from its merits as a Coke bottler, it will be a constituent of the FTSE 250 and thus in demand from the growing number of index-tracking funds.

"Everything we've heard and seen shows a great deal of interest out there," says Mr Isdell.

NEWS DIGEST

INFORMATION TECHNOLOGY

ICL allies itself with Microsoft

ICL yesterday became the latest computer industry group to announce a strategic partnership with Microsoft, the world's biggest software company, in a move that ICL believes could increase its revenues by up to 20 per cent over the next three years. The UK group, which in the past three years has transformed itself from a computer manufacturer into a computer services supplier, says the deal will generate 1,000 jobs in Europe.

The move will also see ICL undertake Europe's largest information technology training programme with 4,000 engineers – a quarter of ICL employees – being taught to use the latest Microsoft software and systems.

Keith Todd, chief executive of ICL, said the two companies would develop a new generation of "consumer focused" IT systems, running on Microsoft software and using ICL's expertise in providing systems integration solutions.

Mr Todd denied the alliance would stop companies seeking an alternative software supplier: "This is not an exclusive deal. We will still have the flexibility to offer customers the system of their choice." He added that the alliance would enable ICL to cut costs and improve efficiency. Any boost to revenues would benefit ICL enormously given its intention to float in 2000. The company recently returned to the black, with pre-tax profits of £30m on revenues of £2.5bn in 1997. Fujitsu, the Japanese computer group, owns 90 per cent of ICL. **Christopher Price**

RETAILERS

Thorn approached for US units

Thorn, the rentals group, is today expected to put a number of its divisions up for sale and reveal that it has had several approaches from potential purchasers for its US business.

The announcement will be made as the group – which is today forecasted to report pre-tax profits of about £117m ($195m) for last year – gives details of the wide-ranging strategic review, begun last November.

The review is understood to have concluded that Thorn should dispose of a number of non-core divisions. Analysts speculated that this could include the group's Nordic operations. The main UK rentals business, which has been suffering fundamental profit and sales declines, is not likely to find ready buyers, analysts said. Severe competition from rivals such as Granada, and a shrinking market, made this a difficult business to manage, said one.

Thorn is also expected to tell shareholders it plans to return the proceeds of any disposals. The group has underperformed the market by almost 66 per cent since it was demerged from the entertainments group EMI in 1996.

It has been hit by a series of law suits in the US since a New Jersey court delivered an adverse ruling over its rent-to-buy scheme in the US. Initial judgments and settlements have so far totalled more than £80m. **Peggy Hollinger**

CHEMICALS

BTP buys from Bristol-Myers

BTP, the acquisitive speciality chemicals group, is to buy Hexachimie, the French fine chemicals manufacturing subsidiary of Bristol-Myers Squibb of the US, for $87.5m cash.

According to Ken Greatbatch, BTP finance director, the auction of the business by Bristol-Myers Squibb is part of a broader trend for drugs companies to spin off chemicals manufacturing to give them greater purchasing flexibility. Mr Greatbatch said: "We are continuing to look for exactly this kind of acquisition throughout the world."

EURO PRICES

EQUITIES

Dollar and bid talk aid bourses

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

A strong dollar, another big takeover bid and healthy bond markets all helped European equity markets push further ahead yesterday.

The FTSE Eurotop 100 index gained 21.52 or 0.75 per cent to 2,875.22, while the broader Eurotop 300 rose 8.38 or 0.67 per cent to 1,252.97. The FTSE Ebloc 100 index, comprising stocks from those countries that will form the initial group of euro members at the start of 1999, advanced 4.16 to 1,056.14.

The FTSE Eurotop 100 future, traded on the London International Financial Futures Exchange, continued to attract modest business, with 155 lots dealt.

Bond markets were higher across Europe, helped by mild inflation data in Germany and a robust Treasury bond market. The strength of the dollar, which reached a seven-year high against the yen, was also supportive for European stocks. All-time highs were reached in Brussels, Frankfurt and Paris.

The entry of ABN Amro into the takeover battle for the Belgian group Generale Bank, apart from giving another push to the bid bandwagon, had some significant effects on share prices. Generale Bank jumped Ecu 87.1 to Ecu 660.88, while ABN Amro fell Ecu 0.3 to Ecu 23.15. The retail banking sector gained 0.6 per cent.

Société Générale de Belgique, which owns a 29.7 per cent stake in Generale Bank and has pledged to support a rival bid from Belgo-Dutch group Fortis, fell Ecu 1.4 to Ecu 165.47.

German industrial group Linde was one of the day's best performers, rising Ecu 41.0 to Ecu 704.38 on good four-month figures.

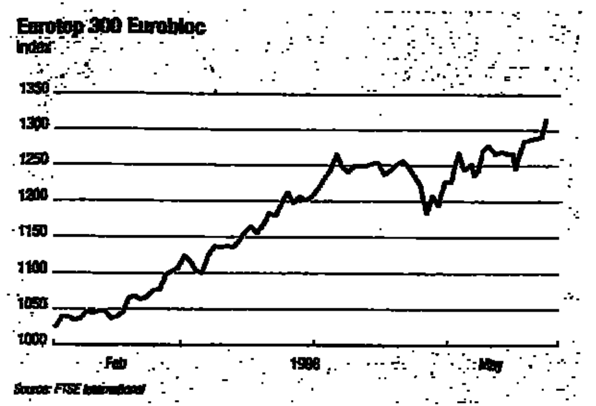
Oil exploration was the best sector on the day, gaining 2.8 per cent, in spite of a fall in the crude price. The two UK stocks, Enterprise Oil and Lasmo, gained Ecu 0.2 to Ecu 8.68 and Ecu 0.2 to Ecu 4.38 respectively.

The information technology sector gained 2.5 per cent, with strong rises from both Cap Gemini, up Ecu 5.6 to Ecu 127.29 and SAP, which gained Ecu 8.8 to Ecu 511.54.

The support services sector fell 1.5 per cent, with Adecco dropping Ecu 10.1 to Ecu 385.94.

Eurotop 300 Eurobloc

Index



Source: FTSE International

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.770	95.755	+0.005	95.770	95.745	259	12220
Sep	95.810	95.805	+0.010	95.810	95.800	524	17079
Dec	95.950	95.935	+0.005	95.950	95.935	43	7181
Mar	-	95.850	+0.020	-	-	0	5164

■ THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Aug	PUTS Sep
96000	0	0	0.010	0.015	0.245	0.195	0.205	0.210
96125	0				0.370			

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	2900.0	2885.0	+73.0	2905.0	2878.0	155	608
Sep	-	2911.0	+73.0	-	-	0	5

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2725 C	2725 P	2750 C	2750 P	2775 C	2775 P	2800 C	2800 P	2825 C	2825 P	2850 C	2850 P	2875 C	2875 P	2900 C	2900 P
Jun	171	19	151	26	133	32	117	40	101	48	86	59	74	71	-	-
Jul	197	44	181	52	164	61	148	71	133	79	120	89	108	101	-	-

Est vol total:0 . Prev day's open interest total: 604 . Premiums shown are based on settlement prices.

OTHER INDICES

	May 26	May 25	May 22	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	(u)	3369.40	3329.86	3386.08	2574.51	3386	2978.42
DJ Euro Stx 50	(u)	3422.42	3371.39	3422.42	2486.81	3422.42	2865.52
MSCI Europe	(u)	-(u)	1227.31*	1240.82	960.50	1240.82	510.78

Source: Ecowin/point of FT Information. *Subject to revision next day. (u) Unavailable.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

May 26 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total return (Ecu)
FTSE Eurotop 300	1252.97	+0.67	+8.38	1.93	12.98	1276.53
FTSE Eurotop 100	2875.22	+0.75	+21.52	1.90	12.10	1020.04
FTSE Ebloc 100	1056.14	+0.40	+4.16	1.80	5.79	1062.20
FTSE Eurotop 300 Regions						
Eurobloc	1316.68	+0.45	+5.89	1.57	9.60	1332.08
UK	1144.29	+1.00	+11.31	2.80	18.70	1182.59
Europe Ex-Eurobloc	1201.18	+0.90	+10.73	2.30	15.17	1229.48
Europe Ex-UK	1315.51	+0.51	+6.73	1.51	9.73	1329.28
FTSE Eurotop Industry Sectors						
RESOURCES	1041.35	+0.77	+8.00	2.65	13.21	1069.91
Extractive Industries	901.91	-1.04	-9.48	2.86	0.00	901.91
Oil, Integrated	1000.62	+0.81	+8.08	2.65	8.22	1005.96
Oil, Exploration & Prod	1076.63	+2.80	+29.34	2.25	0.00	1076.63
GENERAL INDUSTRIES	1249.39	+0.62	+7.75	1.79	11.09	1264.68
Construction	1035.05	-1.16	-12.18	2.81	0.00	1035.05
Building Matls & Merchs	1098.57	+1.38	+14.99	2.41	0.00	1098.57
Chemicals	1036.01	+0.02	+0.25	2.15	12.98	1049.46
Diversified Industrials	1042.71	+0.12	+1.30	1.82	4.24	1047.65
Electronic & Elect Equip	1080.63	+0.40	+4.30	1.69	0.00	1080.63
Engineering	1056.10	+1.27	+13.37	2.17	1.02	1057.16
Paper, Pckg & Printing	1023.84	-0.55	-5.62	2.29	0.00	1023.84
CONSUMER GOODS	1175.34	+0.77	+8.96	1.58	10.27	1198.74
Automobiles	1107.42	+1.31	+14.33	0.87	1.98	1108.48
Alcoholic Beverages	1015.20	+1.13	+11.30	2.27	1.85	1017.13
Food Producers	1042.47	+0.27	+2.78	1.38	3.60	1046.27
Household Goods & Texts	1065.63	+0.21	+2.23	1.15	0.72	1066.38
Healthcare	981.06	+2.31	+22.11	2.34	0.00	981.06
Pharmaceuticals	1003.06	+0.96	+9.55	1.33	1.63	1004.70
Tobacco	981.06	+1.13	+10.89	4.32	0.00	981.06
SERVICES	1194.38	+0.69	+8.13	1.60	10.88	1215.27
Distribution	1030.63	-1.37	-14.28	0.96	2.70	1033.41
Leisure & Hotels	1007.35	+1.56	+15.43	2.39	0.00	1007.35
Media	1055.47	+1.03	+10.78	2.18	1.29	1058.80
Retailers, Food	1005.68	+0.41	+4.13	2.01	7.01	1012.89
Retailers, General	1031.96	-0.11	-1.15	2.22	6.22	1038.21
Telecommunications	1031.38	+1.19	+12.18	1.64	2.31	1033.77
Breweries, Pubs & Rests	958.52	+0.13	+1.26	2.60	4.91	963.44
Support Services	1022.62	-1.47	-15.22	1.22	4.59	1027.68
Transport	1045.59	+0.13	+1.31	2.46	0.58	1046.21
Information Technology	1088.83	+2.52	+26.74	0.38	2.23	1091.31
UTILITIES	1318.34	+0.33	+4.35	3.29	23.71	1358.81
Electricity	1002.57	+0.30	+2.96	3.43	0.00	1002.57
Gas Distribution	1023.18	-0.13	-1.34	1.79	83.72	1116.24
Water	980.08	+1.35	+13.01	5.13	0.00	980.08
FINANCIALS	1388.83	+0.65	+9.02	1.87	16.47	1414.29
Banks,Retail	1009.06	+0.63	+6.32	2.07	8.13	1016.21
Insurance	1011.55	+0.70	+7.03	1.30	3.23	1014.86
Life Insurance	1046.84	+1.23	+12.69	2.01	3.19	1049.30
Other Financial	1027.33	+0.07	+0.73	1.92	6.00	1033.48
Investment Companies	1118.31	-0.99	-11.19	1.87	0.00	1118.31
Property	926.95	+0.95	+8.76	2.85	0.00	926.95

CURRENCIES & MONEY

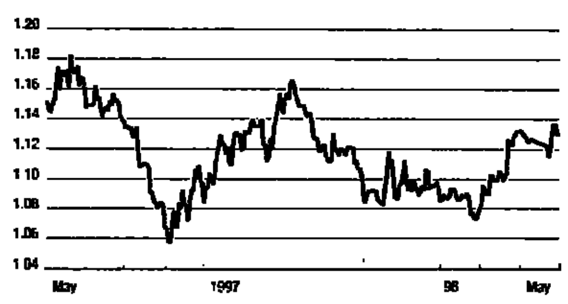
FT SYNTHETIC EURO RATES

May 26	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.066365	+0.0008	+0.01	-0.0014	-0.01
Belgium	BEF	41.219239	+0.0076	+0.02	-0.0059	-0.01
Czech Republic	CZK	36.638070	+0.2438	+0.67	+0.0908	+0.25
Denmark	DKK	7.613610	-0.0009	-0.01	-0.0005	-0.01
Finland	FIM	6.074759	-0.0006	-0.01	-0.0011	-0.02
France	FRF	6.704232	+0.0002	+0.00	+0.0013	+0.02
Germany	DEM	1.999086	+0.0002	+0.01	-0.0001	-0.01
Greece	GRD	342.893894	+1.4036	+0.41	-2.4360	-0.71
Hungary	HUF	238.528752	-0.7158	-0.30	+1.4880	+0.63
Ireland	IEP	0.793836	-0.0004	-0.05	+0.0001	+0.01
Italy	ITL	1971.053282	-0.5097	-0.03	+0.1482	+0.01
Luxembourg	LUF	41.219239	+0.0076	+0.02	-0.0059	-0.01
Netherlands	NLG	2.252906	+0.0002	+0.01	+0.0001	+0.00
Norway	NOK	8.435172	+0.0021	+0.03	+0.0252	+0.30
Poland	PLN	3.885138	+0.0185	+0.48	+0.0150	+0.39
Portugal	PTE	204.748130	-0.0035	+0.00	-0.0669	-0.03
Romania	ROL	9587.627324	-26.7183	-0.28	+62.1932	+0.65
Russia	RUB	6.976665	-0.0067	-0.10	+0.0806	+1.17
Slovakia	SKK	38.588536	+0.0237	+0.06	+0.2123	+0.55
Spain	ESP	169.794297	-0.0007	+0.00	-0.0503	-0.03
Sweden	SEK	8.751037	+0.0198	+0.22	+0.0449	+0.52
Switzerland	CHF	1.660998	-0.0049	-0.29	+0.0000	+0.00
United Kingdom	GBP	0.689375	-0.0055	-0.79	-0.0003	-0.04
ECU	ECU	1.015054	-0.0006	-0.06	+0.0006	+0.06
Americas						
Brazil	BRL	1.300686	-0.0023	-0.18	+0.0140	+1.09
Canada	CAD	1.641708	+0.0024	+0.15	+0.0175	+1.08
Mexico	MXN	9.803092	+0.0406	+0.42	+0.1791	+1.86
United States	USD	1.129089	-0.0030	-0.27	+0.0078	+0.69
Pacific/Middle East/Africa						
Australia	AUD	1.815095	+0.0058	+0.32	+0.0192	+1.07
Hong Kong	HKD	8.739304	-0.0250	-0.29	+0.0575	+0.66
Japan	JPY	155.591658	+0.4896	+0.32	+3.1287	+2.05
Singapore	SGD	1.866423	+0.0015	+0.08	+0.0142	+0.77
South Africa	ZAR	5.768482	-0.0471	-0.81	+0.0577	+1.01

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1623, NLG 0.0577, BEF 0.0386, ESP 0.0848, IEP 0.0116, PTE 0.0155, ATS 0.0328, FIM 0.0187.

Synthetic Euro against the dollar

$ per euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

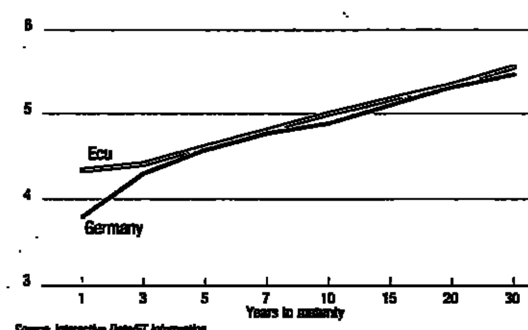
May 26	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward Int rate	Diff int rate v DEM
Austria	7.03552	7.0364	+0.01	+0.02	7.0386	3.79	+0.05
Belgium	20.6255	20.619	-0.03	-0.02	20.6237	3.78	+0.04
France	3.35386	3.3536	-0.01	-0.03	3.3533	3.72	-0.02
Finland	3.04001	3.0388	-0.04	-0.03	3.0409	3.86	+0.12
Ireland	0.402676	0.3971	-1.38	-1.41	0.402	5.82	+2.08
Italy	990.002	985.9771	-0.41	-0.42	991.5426	4.69	+0.95
Luxembourg	20.6255	20.619	-0.03	-0.02	20.6237	3.77	+0.02
Netherlands	1.12674	1.127	+0.02	+0.01	1.1269	3.73	-0.01
Portugal	102.505	102.4209	-0.08	-0.05	102.6923	4.19	+0.45
Spain	85.0722	84.936	-0.16	-0.14	85.1788	4.22	+0.48
Germany	1		+0.00	+0.00		3.74	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3, forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates; Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98. DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

Bond yield curve

Per cent (May 26 1998)



Source: Interactive Data/FT Information

EUROZONE CORPORATE BONDS

May 26	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible issues								
Belgium (Kingdom of)	03/08	5.750	N/A	105.470	5.03	-0.02	-0.07	+0.03
France (Rep of)	04/08	5.250	N/A	102.360	4.94	-0.03	-0.08	-0.06
Italy (Rep of)	05/08	5.000	AA	99.590	5.05	-0.04	-0.16	+0.05
Portugal (Rep of)	06/08	5.375	AA-	102.350	5.07	-0.03	-0.06	+0.07
Euro issues								
Abbey Natl Treas Srv	02/03	4.875	AA	100.500	4.75	-0.04	+0.07	+0.14
Gen Electric Cap Crp	10/04	5.500	AAA	103.290	4.88	-0.03	-0.03	+0.16
Oest Kontrollbank	04/08	5.250	AAA	101.220	5.09	-0.02	-0.11	+0.09
Cred Local de France	04/08	5.250	AA+	100.110	5.23	-0.04	-0.12	+0.23
Ecu issues								
Bayer Hypo & Wch Bk	07/01	5.000	A+	101.199	4.57	-0.02	+0.02	+0.16
Cred Foncier France	03/04	8.375	A	114.920	5.31	+0.04	-0.10	+0.59
Euro Inv Bank	04/04	5.250	AAA	102.970	4.66	-0.03	-0.11	-0.06
ABN Amro Hldg. NV	04/07	6.375	AA-	107.380	5.31	-0.03	-0.13	+0.37

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Euro "in" sovereigns and fungible into one big Euro issue 1/1/99; Euro issues are issued in the new currency; Ecu bonds are issued in Ecus but convert to Euros 1/1/99.

GOVERNMENT BOND SPREADS vs ECU

May 26	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"Ins"						
Austria	-0.15	+0.01	+0.04	+0.00	+0.00	-0.01
Belgium	-0.12	+0.03	+0.06	+0.03	+0.02	+0.02
Finland	-0.17	+0.05	+0.06	+0.02	-0.32	-0.54
France	-0.20	-0.05	-0.07	-0.05	-0.05	-0.08
Germany	-0.23	-0.04	-0.03	-0.12	-0.03	-0.09
Ireland	+0.57	+0.16	+0.12	+0.11	+0.10	+0.20
Italy	+0.22	+0.24	+0.20	+0.19	+0.19	+0.13
Luxembourg	-0.12	+0.03	+0.06	+0.03	+0.02	+0.02
Netherlands	-0.18	-0.03	-0.05	-0.07	-0.04	-0.08
Portugal	-0.03	+0.08	+0.12	+0.10	+0.30	+0.36
Spain	-0.06	+0.05	+0.09	+0.08	+0.19	+0.30
"Outs"						
Denmark	+0.28	+0.25	+0.21	+0.15	+0.05	+0.14
Greece	+6.04	+4.21	+3.38	+2.73	+2.39	+2.17
Sweden	+0.26	+0.20	+0.16	+0.11	+0.08	-0.14
UK	+2.10	+1.31	+1.09	+0.73	+0.40	+0.04

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

May 26	S & P rating	Red date	Coupn	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/08	5.000	DEM	-0.01	-0.01	+0.11
France Telcom	AA+	11/06	6.250	FRF	+0.13	+0.15	+0.31
Halifax	AA	07/07	5.625	DEM	+0.20	+0.19	+0.33
Ing Bank NV	AA-	01/08	5.500	NLG	+0.17	+0.17	+0.30
Bayer Hypo W Bk	A+	02/02	6.750	ITL	+0.30	+0.25	+0.85
Cred Foncier	A	02/03	7.250	DEM	+0.35	+0.35	+0.88
Thomson-Brandt Int	A-	03/04	6.375	FRF	+0.33	+0.31	+0.50
Generale des Eaux	BBB+	03/04	6.250	FRF	+0.30	+0.28	+0.57
Bank of China	BBB	07/99	7.125	DEM	+0.62	+0.77	+0.62
Natl Bk of Hungary	BBB-	06/01	9.000	ATS	+0.67	+0.64	+1.38
Korea Dev Bank	B+	11/02	5.625	FRF	+4.45	+4.40	+4.72

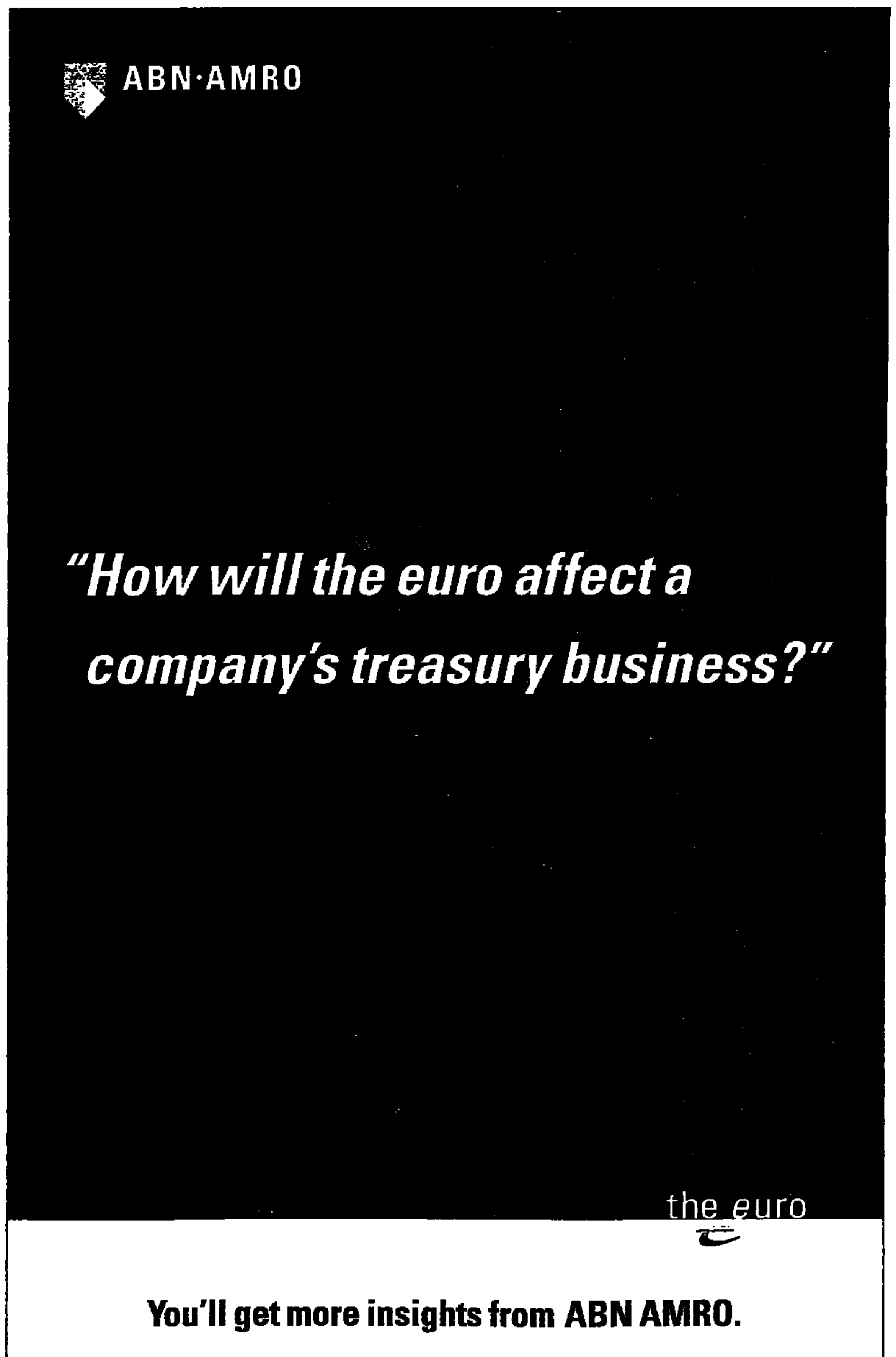
Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

FTSE EUROTOP 300

Name	Price (Ecu)	Chge + or -	Mkt cap Ecu(bn)	Vol (m)	Yld
[illegible]					

Sector headings printed in the listing: ALCOHOLIC BEVERAGES; AUTOMOBILES; BANKS RETAIL; BREWERIES, PUBS & RESTAURANTS; BUILDING MATERIALS & MERCHANTS; CHEMICALS; CONSTRUCTION; DISTRIBUTORS; DIVERSIFIED INDUSTRIALS; ELECTRICITY; ELECTRONIC & ELECTRICAL EQPT.; ENGINEERING; EXTRACTIVE INDUSTRIES; FOOD PRODUCERS; GAS DISTRIBUTION; HEALTH CARE; HOUSEHOLD GOODS & TEXTILES; INFORMATION TECHNOLOGY; INSURANCE; INVESTMENT COMPANIES; LEISURE & HOTELS; LIFE INSURANCE; MEDIA; OIL, EXPLORATION & PRODUCTION; OIL, INTEGRATED; OTHER FINANCIAL; PAPER, PACKAGING & PRINTING; PHARMACEUTICALS; PROPERTY; RETAILERS, FOOD; RETAILERS, GENERAL; SUPPORT SERVICES; TELECOMMUNICATIONS; TOBACCO; TRANSPORT; WATER

Notes: Price data and market capitalisations supplied by FTSE International. [illegible]



Treasuries lead widespread gains

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

Markets roared back into gear yesterday, managing gains across the board on record dollar strength, low inflation data from Germany, continued worries over selected Asian economies and concern about shaky Russian government finances.

US Treasuries opened the week stronger, breaking above key resistance as the dollar continued to strengthen. Among positive factors was a statement from the White House saying it would forecast federal budget surpluses for the next 10 years.

The yen's lurch downwards once again focused attention on the Japanese economy, with some traders predicting further flows of Japanese funds into safe havens, primarily the US and German markets.

With Asian jitters becoming a recurring theme, there was plenty to chew on yesterday. In South Korea, authorities and labour unions locked horns over plans for a two-day strike from today, while in Hong Kong, retail sales were shown to have sagged once again.

In Russia, worries over the state of the economy were enough to send local Treasury bill yields to 18-month highs and to hit confidence in emerging markets.

Andy Bevan, senior bond economist at Goldman Sachs, said most bonds had powered ahead at the long end of the curve, pulled by US Treasuries. "You've had global factors kicking in for markets and a domestic [German] factor on the inflation front. Then there are concerns about emerging markets generally."

By early afternoon the 30-year US TREASURY had gained one point to 104, sending the yield down to 5.839 per cent. Among shorter-term issues the 10-year bond climbed $\frac{11}{16}$ to 100$\frac{11}{16}$, yielding 5.579 per cent, while the two-year note rose $\frac{1}{16}$ to 100$\frac{1}{16}$, yielding 5.588 per cent.

The day's economic reports showed that sales of existing homes in April fell to 4.77m, while the Conference Board said consumer confidence had fallen in May from a high April level.

GERMAN BUND traders reported buying interest along the yield curve as the market found support from Hesse and North-Rhine Westphalia consumer price data for May, underscoring Germany's low inflation environment.

The 10-year bund future settled at 107.70, well above technical resistance of 107.65. Chartists said this might open the way for a move to 107.90, a level not seen since April.

UK GILTS were lifted by higher US Treasuries and a Barclays report suggesting base rates would fall to 5.5 per cent by the end of 1999.

The spread over German bunds narrowed back below the 100 basis point mark and ended at 96 basis points.

However, the market was seen to be lacking inspiration until the Thursday release of the Confederation of British Industry's monthly trends survey.

Rob Hayward, senior economist at Bank of America, predicted this would highlight the current slowdown in the manufacturing sector – which would benefit bond markets as it would provide further ammunition in favour of leaving interest rates where they are.

But he warned that it was still too early to plot a course for gilts: "We might see the spread come in below 95 [basis points] but any further is unlikely until we really have some better news on [wage] earnings. If we get that, then there will be confidence that rates have peaked."

The June 10-year future settled at 109.03, after trading in a 35 basis point range in heavy volume of 130,00 contracts.

SCANDINAVIAN BONDS again turned heads with yield spreads in Sweden and Denmark narrowing significantly over German bunds.

Swedish debt yields closed at all time lows on comments by Urban Backstrom, governor of the Riksbank (central bank), that inflation could fall below the bank's 2 per cent target over the next one or two years.

Danes vote in a referendum tomorrow on the European Union's Amsterdam treaty, with polls forecasting a "Yes".

Matif announces strategy for euro

By Edward Luce

Matif, the French derivatives exchange, plans to convert its contracts into the euro, including an expected 30-year contract based on more than one sovereign bond.

The announcement means all three leading European exchanges, including the Deutsche Terminbörse and the London International Financial Futures Exchange, have strategies for the euro.

Matif will start trading its 10-year euro Notional contract on June 16 and its euro five-year contract on September 1. Both will still be based on underlying French Treasury benchmarks.

The exchange said this decision was based on the need for continuity and on the benefits of transparency, liquidity and efficiency in the French OAT yield curve.

However, the exchange would probably incorporate bonds issued by the German, Dutch and French governments and possibly other countries for the 30-year contract that it is planning to launch in the near future.

Matif also confirmed it would adopt Euribor – the Brussels-inspired competitor to the London interbank offered rate – as the benchmark for its future and option on three-month euro interest rates. Market participants will be able to transfer liquidity from existing Pibor contracts into Euribor from September 15.

Liffe has chosen Libor for its short-term interest rate contracts while the DTB will offer contracts based on both reference rates so the market can decide which it prefers. Matif will also open its existing all-sovereign Ecu contract to trading in euros from June 16.

Austria makes D-Mark issue

INTERNATIONAL BONDS

By Edward Luce and Simon Davies

Austria yesterday followed Italy, Spain, Finland and Belgium in offering a domestic government bond in a foreign currency.

The DM1bn issue, which will be fungible with E4.7bn worth of existing government bonds after European monetary union, is designed to broaden the investor base for Austrian domestic government bonds.

Opting for the DMark also enabled Austria to achieve a slightly tighter spread than on schilling-denominated issues.

The 10-year issue was offered at a launch spread of six basis points – about five basis points inside the parallel schilling bonds. In addition, it had a beneficial effect on Austrian government bonds, which tightened by almost a basis point yesterday. The D-Mark issue, however, widened by about one basis point after launch.

An official at SBC Warburg Dillon Read, sole lead, said most of the offering went to Dutch pension funds and Swiss institutional investors.

The PROVINCE OF ONTARIO returned to the sterling sector for the first time in five years, with a £200m issue carrying a coupon of 6.375 per cent. It was its first eurobond issue in more than a year, and a rare sterling issue by a Canadian province.

The issue has a six-year maturity and was priced at 38 basis points over the equivalent gilt, a 19 basis point yield premium to the Canadian 2004.

A senior banker at ABN Amro, lead manager, said he expected more sterling issues in this part of the yield curve. "People felt sterling was over-valued as we went into the euro fixings. Now investors feel it is fair to good value."

Some 60 per cent of the bonds were sold to continental European investors, with 40 per cent going to the UK.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
GECC‡	300	(a)	100.04R	Jun 1999	0.05R	-	Daiwa Europe
Huntingdon National Bnk‡‡	100	(b1)	100.00R	Jun 2008	0.225R	-	Lehman Brothers
D-MARKS							
Republic of Austria(c)	1.0bn	5.00(c)	100.316R	Jan 2008	0.325R	+6(5½%-Jan08)	SBC Warburg Dillon Read
STERLING							
Province of Ontario	200	6.375	99.967R	Jun 2004	0.275R	+38(6¾%Nov04)	ABN Amro
SWISS FRANCS							
Abbey Natl Tsry Services(d)	150	2.00	100.00	Aug 2001	1.50	-	CSFB/Deutsche Bank
GUILDERS							
Swiss Re Finance(f)§	925	1.25	100.00	Jun 2003	2.50	-	CSFB
SWEDISH KRONOR							
Kommuninvest(g)	1bn	5.25	101.18	May 2003	undisc	+20(9%-03)	Swedbank
GREEK DRACHMA							
DSL Bank	10bn	8.50	99.85R	Jun 2001	0.25R	-	PaineWebber Intl(UK)

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager.§ Convertible. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor -12½bp. b) Callable from June 03 at par. b1) 3-mth Libor +45bp. c) Fungible with Sch65.6bn upon Emu. Plus 143 days accrued. d) Fungible with SFr500m. Plus 303 days accrued. f) Exchangeable into ING shares at Fl 185. Callable from Jun 01 subject to 120% hurdle at par. g) Fungible with SKr1bn. Plus 29 days accrued. ‡) Short first coupon.

NEWS DIGEST

TELECOMMUNICATIONS

Ceske Radiokomunikace equity offer raises $134m

Ceske Radiokomunikace, the telecommunications, radio and television transmission group, yesterday became the first Czech company to raise capital through a public international equity offering. The majority state-owned company raised $134m through a 38 per cent increase in equity, the bulk of which will be in Global Depositary Receipts in London.

The issue price was Kc525 a share ($16.33 a GDR), a discount of 8 per cent to last Friday's close on the Prague stock exchange after adjusting for a 10-for-1 share split. Yesterday the GDRs closed in London at $18.25.

The company's first equity increase, for which ABN Amro Rothschild was the global co-ordinator, was six times over-subscribed. Investors focused on the company's 51 per cent stake in RadioMobil, the country's second mobile telephone operator, and its good prospects after fixed-line voice telephony is liberalised at the end of 2000. Last year Ceske Radiokomunikace made a preliminary pre-tax profit of Kc1.33bn ($41.7m) on revenues of Kc1.83bn.

The final proportion of shares listed in London will depend upon how many existing shareholders take up their rights. The Czech state, which owns 70 per cent of the shares, will not exercise its rights and will allow its stake to fall to 51 per cent.

Tele Danmark, which has a 21 per cent holding, has yet to announce whether it will participate, but is believed to want a signal from the Czech government that it will be considered as a potential strategic partner. Robert Anderson, Prague

AUSTRIA

Haustechnik plans IPO

The dearth of new issues on Austria's small stock market has ended with the planned initial public offering of Austria Haustechnik, the world's biggest manufacturer of ice-cream chest freezers. The IPO is the first in Austria this year.

AHT is issuing 1.07m shares in a price range of Sch345 to Sch415, valuing the company at about Sch700m ($56m). After being rescued from bankruptcy in the early 1980s, the group returned to the black in 1990 and reported net profits of Sch29.7m on sales of Sch374.6m in 1997.

It employs 481 people, exports 90 per cent of its production and has an estimated 11 per cent share of the world market for ice-cream freezers. Since 1993 it has been controlled by a group led by Citicorp Venture Capital.

Existing shareholders are selling 870,000 shares, roughly half their stake, and AHT is issuing 200,000 new shares in a deal led by CAIB Investment Bank. The shares are being sold on a multiple of 10.5 to 12.8 times estimated 1998 earnings.

Dresdner Kleinwort Benson, one of the co-managers, estimates that the group will double its earnings per share to Sch42 by 2000. The IPO is much smaller than last year's new issues of Austrian Tabak and Erste Bank and is likely to be valued in line with comparable German small cap stocks. William Hall, Geneva

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

[illegible]

10 YEAR BENCHMARK SPREADS

[illegible]

EMERGING MARKET BONDS

[illegible]

BOND FUTURES AND OPTIONS

France

[illegible]

Germany

[illegible]

Italy

[illegible]

Spain

[illegible]

UK

[illegible]

US

[illegible]

Japan

[illegible]

Ecu

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	103.66	103.66	-	103.66	103.66	57	4,992

US CORPORATE BONDS

[illegible]

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

[illegible]

UK BONDS

FTSE Actuaries Govt. Securities

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

Rubin remarks continue to hurt yen

MARKETS REPORT

By Richard Adams

The US dollar strengthened against the D-Mark during trading on foreign exchanges yesterday, after events in Eastern Europe weakened the German currency.

The dollar also continued to rise against the yen, despite comments from Robert Rubin, the US Treasury secretary, distancing himself from a report claiming he was happy to see the yen weaken to Y140-Y150.

Paul Chertkow, head of global currency research at the Bank of Tokyo-Mitsubishi, said that the dollar had prospered in Europe after uncertainty following the weekend's elections in Hungary and continued pressure on the Russian rouble.

The possibility of a coalition government in Hungary and surprising move to cut interest rates by the National Bank of Hungary unsettled the D-Mark. Sentiment towards the dollar and sterling improved, and saw both currencies make strong gains against the D-Mark.

The dollar began with momentum from its gains overnight and yesterday against the yen. The move was fed by an item in US News and World Report, that Mr Rubin was willing to let the yen depreciate.

"The bottom line is that the foreign exchange market believes there is a lot of truth in the rumour that the US would tolerate, tacitly, a move higher for dollar/yen," Mr Chertkow said.

The dollar had traded at Y137.25 in Tokyo, and was higher again by the end of trading hours in London at Y137.93. Patricia Elbaz, a technical analyst at Standard & Poor's MMS, said the dollar's three year channel showed a target of Y143.

Sterling gained nearly three pfennigs against the D-Mark, compared with Friday. It closed at DM2.90. Both the D-Mark and sterling moved higher at the expense of the yen.

■ The widely-reported comments in US News and World Report's "Washington Whispers" column sent the dollar to a seven-year high against the yen. It later fell back when Mr Rubin appeared to contradict the news story.

"I have also seen that report and was somewhat surprised by it," Mr Rubin said yesterday. "We have for several months said that Japanese authorities expressed concern about the weakness of the yen, and we had shared that concern."

The magazine said "well-informed sources" believed that Mr Rubin was "willing to let the Japanese yen keep plunging – below the Y140 to the dollar level and even to Y150 – if that's the only way to keep the world's second biggest economy from totally collapsing."

Avinash Persaud, currency analyst at J.P. Morgan in London, said the market was ready to believe that US will not help to shore up the yen.

And the failure of the last round of intervention by Japanese authorities appears to have hardened opposition to further intervention, Mr Persaud thinks.

Mr Chertkow said that intervention would be fruitless, in the absence of accompanying policy moves or the market being caught long of dollars. With six weeks until upper house elections in Japan, and the reduction in turmoil in Indonesia, the foreign exchange market's focus will increasingly be on Japan's domestic economy, he said.

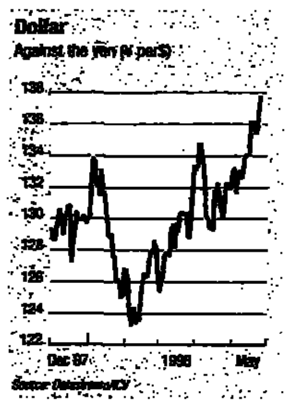
■ Sterling's trade-weighted index shot up to 103.4 at the London close yesterday, thanks to the weaker yen and D-Mark. That was a gain of 0.9 from Friday's final level, but remains five per cent below the recent high it recorded in April.

Reports said the pound was buoyed by a Swiss institution making a large buy order against the D-Mark.

■ The Reserve Bank of New Zealand's decision to lower its Monetary Conditions Index by 150 points did little to help sentiment towards the local currency.

Don Brash, the central bank's governor, defended the use of the index. But analysts remain sceptical about its construction.

More importantly, the state of New Zealand economy make it unlikely the Kiwi will recover in the short term. "We might get some stability until the next set of weak data, but the Kiwi is heading lower still," said Goldman Sachs.



Source: Datastream

■ POUND IN NEW YORK

May 26	—Latest—	—Prev. close—
£ spot	1.6355	1.6305
1 mth	1.6330	1.6280
3 mth	1.6283	1.6235
1 yr	1.6122	1.6074

■ OTHER CURRENCIES

May 26	£	$
Czech Rep	53.1062 - 53.1943	32.4810 - 32.4860
Hungary	345.983 - 346.178	211.470 - 211.470
Iran	4871.00 - 4908.00	3000.00 - 3008.00
Kuwait	0.5006 - 0.5011	0.3060 - 0.3061
Peru	4.6577 - 4.6605	2.8470 - 2.8500
Poland	5.6211 - 5.6411	3.4450 - 3.4460
Russia	10.1170 - 10.1248	6.1840 - 6.1850
U.A.E.	6.0085 - 6.0129	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

May 26		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. index
Europe													
Austria	(Sch)	20.4059	+0.1825	982 - 155	20.4221	20.2124	20.3386	4.1	20.2147	3.7	19.75	3.2	103.2
Belgium	(BFr)	59.7951	+0.4835	388 - 953	59.8590	59.2550	59.595	4.0	59.2283	3.7	57.863	3.2	102.8
Denmark	(DKr)	11.0452	+0.086	402 - 502	11.0557	10.9398	11.0176	3.0	10.9675	2.8	10.7687	2.5	105.2
Finland	(FM)	8.8125	+0.0688	050 - 200	8.8210	8.7340	8.7939	4.0	8.7319	3.7	8.5348	3.2	81.2
France	(FFr)	9.7257	+0.0771	219 - 295	9.7338	9.6323	9.6934	4.1	9.6327	3.8	9.4072	3.3	106.2
Germany	(DM)	2.9000	+0.0231	987 - 013	2.9036	2.8723	2.8901	4.1	2.8723	3.8	2.8057	3.3	104.4
Greece	(Dr)	497.431	+5.562	976 - 962	498.104	492.456	499.451	-5.9	503.18	-4.6	515.982	-3.7	66.5
Ireland	(I£)	1.1517	+0.0035	505 - 528	1.1540	1.1452	1.1510	0.9	1.1495	0.8	1.1433	0.7	95.1
Italy	(L)	2859.37	+21.86	768 - 107	2862.15	2828.31	2864.62	-2.0	2943.2	2.2	2782.55	2.7	76.2
Luxembourg	(LFr)	59.7951	+0.4835	388 - 953	59.8590	59.2550	59.595	4.0	59.2283	3.7	57.863	3.2	102.8
Netherlands	(Fl)	3.2682	+0.0262	666 - 698	3.2710	3.2374	3.2589	4.1	3.237	3.8	3.1616	3.3	102.2
Norway	(NKr)	12.2398	+0.0886	289 - 446	12.2509	12.1118	12.226	3.1	12.1514	2.8	11.9880	2.2	98.1
Portugal	(Es)	297.025	+2.342	892 - 157	297.260	294.158	296.355	2.6	294.725	2.7	286.153	3.0	92.8
Spain	(Pta)	246.318	+1.948	202 - 434	246.660	244.060	245.654	3.2	244.433	3.1	239.823	3.0	77.0
Sweden	(SKr)	12.8938	+0.1286	870 - 030	12.7109	12.5325	12.883	3.0	12.8048	2.8	12.5673	2.5	86.3
Switzerland	(SFr)	2.4096	+0.012	080 - 111	2.4117	2.3865	2.3975	6.0	2.3752	5.7	2.2857	5.1	106.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	103.4
Ecu		1.4725	+0.0106	716 - 734	1.4737	1.4584	1.4684	3.3	1.4600	3.2	1.429	3.0	-
SDR†		1.221000	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6362	+0.0094	357 - 367	1.6376	1.6277	-	-	-	-	-	-	-
Brazil	(R$)	1.8889	+0.0115	881 - 876	1.8893	1.8769	-	-	-	-	-	-	-
Canada	(C$)	2.3815	+0.0223	804 - 827	2.3835	2.3616	2.3793	2.7	2.3675	2.4	2.3344	2.0	81.3
Mexico	(New Peso)	14.2212	+0.1708	119 - 304	14.2369	14.1035	14.3875	-14.0	14.8941	-13.3	16.8816	-13.1	-
USA	($)	1.6365	+0.0088	360 - 370	1.6387	1.6288	1.6339	1.9	1.6294	1.7	1.6134	1.4	111.2
Pacific/Middle East/Africa													
Australia	(A$)	2.6332	+0.0291	302 - 361	2.6386	2.5997	2.6277	2.5	2.6171	2.4	2.5743	2.2	83.1
Hong Kong	(HK$)	12.6780	+0.0642	733 - 827	12.6942	12.6188	12.5768	0.1	12.6818	-0.1	12.9598	-2.2	-
India	(Rs)	67.3829	+0.7122	214 - 444	67.4510	66.7688	-	-	-	-	-	-	-
Israel	(Shk)	5.9513	+0.0189	426 - 597	5.9810	5.9419	-	-	-	-	-	-	-
Japan	(Y)	225.714	+2.488	388 - 841	225.940	222.280	224.339	7.3	221.784	7.0	210.949	6.5	112.0
Malaysia	(M$)	6.2764	+0.0618	667 - 861	6.2889	6.1602	6.3455	-13.7	6.5018	-14.4	6.938	-10.5	-
New Zealand	(NZ$)	3.0649	-0.004	609 - 678	3.0698	3.0425	3.0674	-1.0	3.0727	-1.0	3.0806	-0.5	96.4
Philippines	(Peso)	63.1850	+0.332	224 - 135	63.5974	62.7622	63.5932	-8.0	64.362	-7.6	68.2506	-8.0	-
Saudi Arabia	(SR)	6.1379	+0.0323	358 - 398	6.1450	6.1001	6.1302	1.5	6.1156	1.4	6.0731	1.1	-
Singapore	(S$)	2.7676	+0.0236	051 - 101	2.7730	2.7430	2.7115	-1.7	2.7145	-1.0	2.7411	-1.2	-
South Africa	(R)	8.3883	-0.0016	632 - 733	8.3901	8.3541	8.4491	-11.6	8.5431	-8.4	8.952	-7.0	-
South Korea	(Won)	2282.92	+28.09	895 - 888	2292.71	2257.56	-	-	-	-	-	-	-
Taiwan	(T$)	55.4209	+0.6013	884 - 534	55.4872	54.8614	55.4359	-0.3	55.5639	-1.0	56.1311	-1.3	-
Thailand	(Bt)	64.2736	+0.3785	312 - 160	64.4370	63.7100	65.4797	-22.5	67.0913	-17.5	73.5311	-14.4	-

† Rates for May 22. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 26		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.4692	+0.0930	671 - 713	12.4740	12.4004	12.4466	2.2	12.4085	2.0	12.2412	1.8	103.2
Belgium	(BFr)	36.5390	+0.104	140 - 640	36.5400	36.3800	36.4725	2.2	36.3555	2.0	35.864	1.8	103.0
Denmark	(DKr)	6.7493	+0.0172	483 - 503	6.7583	6.7133	6.7431	1.1	6.731	1.1	6.6733	1.1	104.8
Finland	(FM)	5.3850	+0.0138	820 - 879	5.3890	5.3578	5.3809	2.3	5.3449	2.3	5.2757	1.8	80.9
France	(FFr)	5.9430	+0.016	425 - 435	5.9440	5.9110	5.9156	2.3	5.9156	2.1	5.815	1.9	108.1
Germany	(DM)	1.7721	+0.0048	718 - 723	1.7728	1.7625	1.7638	2.3	1.758	2.1	1.7342	1.9	104.3
Greece	(Dr)	303.960	+0.05	710 - 210	305.200	303.800	303.65	-5.9	306.75	-6.4	317.76	-5.2	60.4
Ireland	(I£)	1.4210	-0.003	200 - 220	1.4240	1.4168	1.4229	0.9	1.4248	0.6	1.4322	-0.6	-
Italy	(L)	1747.25	+4.2	675 - 775	1748.00	1736.00	1742.85	0.1	1740.5	0.6	1729.3	1.3	75.1
Luxembourg	(LFr)	36.5390	+0.104	140 - 640	36.5400	36.3800	36.4725	2.2	36.3555	2.0	35.864	1.9	103.0
Netherlands	(Fl)	1.9971	+0.0055	968 - 973	1.9989	1.9888	1.9878	2.3	1.9811	2.1	1.9542	1.9	102.2
Norway	(NKr)	7.4774	+0.0218	749 - 799	7.4870	7.4380	7.4477	1.3	7.4355	1.1	7.2928	0.8	95.7
Portugal	(Es)	181.500	+0.45	450 - 550	181.600	180.620	180.646	1.8	180.425	1.3	178.12	1.6	92.8
Spain	(Pta)	150.515	+0.4	460 - 540	150.600	149.730	149.947	1.3	149.613	1.3	147.735	1.6	77.0
Sweden	(SKr)	7.7524	+0.055	549 - 398	7.7605	7.6910	7.7116	1.2	7.6972	1.2	7.6269	1.2	86.6
Switzerland	(SFr)	1.4724	-0.0004	719 - 728	1.4740	1.4664	1.4676	4.3	1.4581	4.0	1.4174	3.8	105.8
UK	(£)	1.6365	+0.0088	360 - 370	1.6387	1.6288	1.6339	1.9	1.6294	1.7	1.6134	1.4	102.1
Ecu		1.1114	-0.0024	110 - 117	1.1170	1.1107	1.1152	-1.5	1.1177	-1.4	1.1312	-1.6	-
SDR†		0.74950	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	+0.0005	998 - 998	0.9999	0.9997	-	-	-	-	-	-	-
Brazil	(R$)	1.1530	+0.001	529 - 531	1.1532	1.1520	-	-	-	-	-	-	-
Canada	(C$)	1.4553	+0.0085	550 - 555	1.4557	1.4495	1.4484	0.8	1.4468	0.7	1.4405	0.6	81.6
Mexico	(New Peso)	8.6900	+0.059	870 - 930	8.6980	8.6800	8.7465	-16.1	8.856	-15.2	9.9035	-14.7	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	111.1
Pacific/Middle East/Africa													
Australia	(A$)	1.6090	+0.0094	077 - 103	1.6105	1.5954	1.5988	0.8	1.5962	0.9	1.5955	0.9	83.9
Hong Kong	(HK$)	7.7470	-0.0015	465 - 475	7.7483	7.7455	7.7595	-1.7	7.784	-1.8	8.021	-3.5	-
India	(Rs)	41.1750	+0.22	500 - 000	41.2300	41.0000	-	-	-	-	-	-	-
Israel	(Shk)	3.6366	+0.0098	325 - 406	3.6433	3.6305	-	-	-	-	-	-	-
Japan	(Y)	137.925	+0.8	880 - 980	137.990	137.640	136.495	5.6	135.315	5.3	129.96	5.2	114.7
Malaysia	(M$)	3.8353	+0.0176	305 - 400	3.8500	3.7950	3.864	-11.5	3.935	-12.3	4.1825	-9.6	-
New Zealand	(NZ$)	1.8728	+0.0124	716 - 741	1.8765	1.8643	1.8803	-2.0	1.8937	-1.8	1.9125	-1.4	-
Philippines	(Peso)	38.6000	-	000 - 000	38.9000	38.3000	38.9195	-9.9	39.5335	-8.7	42.3285	-8.7	-
Saudi Arabia	(SR)	3.7505	-	505 - 507	3.7508	3.7503	3.7517	-0.4	3.7538	-0.3	3.7641	-0.4	-
Singapore	(S$)	1.6545	+0.0057	535 - 555	1.6629	1.6248	1.6503	-1.1	1.6538	-1.2	1.6693	-1.2	-
South Africa	(R)	5.1135	-0.028	120 - 150	5.1465	5.1100	5.2115	-16.3	5.2965	-12.1	5.5865	-8.7	-
South Korea	(Won)	1395.00	+10.5	300 - 700	1398.00	1389.00	-	-	-	-	-	-	-
Taiwan	(T$)	33.8655	+0.1905	560 - 750	33.8790	33.7200	33.805	-4.8	33.99	-3.7	34.825	-3.4	-
Thailand	(Bt)	38.2750	+0.025	000 - 500	38.3700	38.0500	38.595	-10.5	40.15	-9.2	43.05	-9.7	-

† SDR rate per $ for May 22. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 22. Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

May 26	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3⅝	3⅝	3⅝	3⅝	3⅝	6.00	2.75	-
France	3⅝	3½	3½	3⅝	4⅛	4.60	-	3.30
Germany	3½	3⅝	3⅝	3⅝	3⅞	4.50	2.50	3.30
Ireland	6⅛	6¼	6¼	6⅛	5¾	-	-	6.75
Italy	5½	5⅝	5⅛	4¾	4⅝	6.50	5.00	5.57
Netherlands	3¼	3⅛	3½	3⅝	3¾	-	2.75	3.30
Switzerland	1⅛	1⅛	1¼	1⅜	1⅝	-	1.00	-
US	5⅝	5⅝	5⅝	5⅝	5⅝	-	5.00	-
Japan	⅛	⅜	⅜	⅝	¾	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	5⅝	5⅝	5¾	5⅞	-	-	-
US Dollar CDs	-	5.44	5.48	5.52	5.62	-	-	-
ECU Linked Ds	-	4⅜	4⅜	4⅜	4½	-	-	-
SDR Linked Ds	-	3¾	3⅞	3⅞	3⅞	-	-	-

London interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 26	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3⅞ - 3¾	4 - 3⅞
Danish Krone	5 - 4	4½ - 4¼	4⅛ - 4	4¼ - 4⅛	4⅜ - 4¼	4⅝ - 4½
German Mark	3½ - 3¼	3½ - 3⅜	3½ - 3⅜	3⅝ - 3½	3⅝ - 3½	3¾ - 3⅝
Dutch Guilder	3¼ - 3	3⅜ - 3¼	3½ - 3⅜	3⅝ - 3½	3⅝ - 3½	3⅞ - 3¾
French Franc	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3⅞ - 3¾	4⅛ - 4
Portuguese Esc.	4⅝ - 4½	4⅝ - 4½	4⅝ - 4½	4⅝ - 4½	4⅝ - 4½	4¾ - 4⅝
Spanish Peseta	4¾ - 4½	4¾ - 4½	4⅝ - 4½	4⅝ - 4½	4⅝ - 4½	4⅝ - 4½
Sterling	6¾ - 6¼	7⅜ - 7¼	7⅜ - 7¼	7⅝ - 7½	7⅝ - 7½	7⅝ - 7½
Swiss Franc	1½ - 1¼	1⅝ - 1½	1¾ - 1⅝	1⅞ - 1¾	1⅞ - 1¾	2 - 1⅞
Canadian Dollar	4¾ - 4⅝	4⅞ - 4¾	5⅛ - 4⅞	5⅛ - 4⅞	5¼ - 5	5⅜ - 5¼
US Dollar	5⅝ - 5½	5⅝ - 5½	5⅝ - 5½	5¾ - 5⅝	5⅞ - 5¾	5⅞ - 5¾
Italian Lira	5⅝ - 5½	5⅝ - 5½	5⅝ - 5⅜	5⅛ - 5	4⅞ - 4¾	4¾ - 4⅝
Japanese Yen	½ - ¼	½ - ⅜	½ - ⅜	½ - ⅜	⅝ - ½	¾ - ⅝
Asian $Sing	1 - ¾	4¾ - 4½	5¾ - 5½	5⅞ - 5⅝	6 - 5¾	6 - 5¾

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.390	96.385	+0.010	96.390	96.385	14,275	79,650
Sep	96.220	96.220	+0.010	96.225	96.220	2,859	45,228

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.370	96.375	+0.015	96.375	96.365	24737	357618
Sep	96.230	96.220	+0.010	96.230	96.210	27512	385045
Dec	95.990	95.980	+0.005	95.995	95.970	39116	434467
Mar	95.850	95.850	+0.015	95.855	95.840	24184	379540

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	96.465	+0.025	-	-	0	0
Jul	-	96.420	+0.025	-	-	0	0

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.140	95.060	-0.070	95.140	95.050	39730	241442
Sep	95.710	95.680	-0.040	95.720	95.670	26382	213880
Dec	95.940	95.940	-	95.950	95.930	25304	143680
Mar	95.840	95.840	+0.010	95.840	95.830	3959	201207

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.310	98.340	+0.030	98.360	98.280	9269	59071
Sep	98.130	98.180	+0.050	98.190	98.100	10952	56123
Dec	97.900	97.960	+0.060	97.980	97.890	6332	31036
Mar	97.800	97.870	+0.080	97.880	97.800	821	11496

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	99.39	-	-	-	0	n/a
Sep	-	99.41	-	-	-	0	n/a
Dec	-	99.40	-	-	-	0	n/a

* LIFFE futures also traded on APT

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.770	95.755	+0.005	95.770	95.745	259	12220
Sep	95.810	95.805	+0.010	95.810	95.800	524	17079
Dec	95.950	95.935	+0.005	95.950	95.935	43	7181
Mar	-	95.850	+0.020	-	-	0	5164

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
95125	0.050			0.115		
95250	0.020	0.450	0.705	0.210	0.020	0.015
95375	0.010			0.325		

Est. vol. total, Calls 7975 Puts 5827. Previous day's open int., Calls 342221 Puts 297852

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 26		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.47	16.26	4.850	1.926	4782	5.466	20.46	496.7	411.9	21.23	4.030	1.672	3.983	2.737	377.5	2.462
Denmark	(DKr)	54.14	10	8.805	2.626	1.043	2589	2.959	11.08	268.9	223.0	11.49	2.182	0.905	2.156	1.482	204.4	1.333
France	(FFr)	61.48	11.36	10	2.982	1.184	2940	3.360	12.58	305.4	253.3	13.05	2.478	1.028	2.449	1.683	232.1	1.514
Germany	(DM)	20.62	3.809	3.354	1	0.397	986.0	1.127	4.220	102.4	84.94	4.378	0.831	0.345	0.821	0.564	77.83	0.508
Ireland	(I£)	51.92	9.591	8.445	2.518	1	2483	2.838	10.63	257.9	213.9	11.02	2.092	0.868	2.068	1.421	196.0	1.279
Italy	(L)	2.091	0.386	0.340	0.101	0.040	100	0.114	0.428	10.39	8.614	0.444	0.084	0.035	0.083	0.057	7.894	0.052
Netherlands	(Fl)	18.30	3.380	2.976	0.887	0.352	874.9	1	3.744	90.88	75.37	3.884	0.737	0.306	0.729	0.501	69.06	0.451
Norway	(NKr)	48.87	9.026	7.948	2.370	0.941	2337	2.671	10	242.7	201.3	10.37	1.969	0.817	1.946	1.337	184.5	1.203
Portugal	(Es)	20.13	3.719	3.274	0.976	0.388	962.7	1.100	4.120	100	82.93	4.274	0.811	0.337	0.802	0.551	75.99	0.496
Spain	(Pta)	24.28	4.484	3.948	1.177	0.468	1161	1.327	4.968	120.6	100	5.154	0.978	0.406	0.967	0.664	91.64	0.598
Sweden	(SKr)	47.10	8.700	7.661	2.284	0.907	2252	2.574	9.639	234.0	194.0	10	1.898	0.788	1.876	1.289	177.8	1.160
Switzerland	(SFr)	24.82	4.584	4.036	1.204	0.478	1187	1.356	5.078	123.3	102.2	5.269	1	0.415	0.988	0.679	93.67	0.611
UK	(£)	59.80	11.05	9.726	2.900	1.152	2859	3.268	12.24	297.0	246.3	12.69	2.410	1	2.382	1.637	225.7	1.472
Canada	(C$)	25.11	4.638	4.084	1.218	0.484	1201	1.372	5.138	124.7	103.4	5.330	1.012	0.420	1	0.687	94.77	0.618
USA	($)	36.54	6.749	5.943	1.772	0.704	1747	1.997	7.477	181.5	150.5	7.757	1.472	0.611	1.455	1	137.9	0.900
Japan	(Y)	26.49	4.893	4.309	1.285	0.510	1267	1.448	5.421	131.6	109.1	5.624	1.068	0.443	1.055	0.725	100	0.652
Ecu		40.61	7.501	6.605	1.970	0.782	1942	2.220	8.310	201.7	167.3	8.622	1.636	0.679	1.617	1.111	153.3	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5700	0.5654	-0.0043	0.5701	0.5654	13,991	142,960
Sep	0.5715	0.5689	-0.0038	0.5715	0.5683	915	6,475
Dec	-	0.5717	-0.0037	-	0.5717	20	312

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6858	0.6814	-0.0038	0.6858	0.6801	17,866	69,923
Sep	0.6876	0.6883	-0.0039	0.6888	0.6872	2,822	3,289
Dec	-	0.6946	-0.0042	-	0.6942	3	55

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7365	0.7287	-0.0100	0.7365	0.7276	19,372	110,967
Sep	0.7430	0.7381	-0.0104	0.7430	0.7373	1,644	4,430
Dec	-	0.7585	-	-	-	42	697

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6304	1.6360	+0.0068	1.6368	1.6260	3,228	51,029
Sep	1.6256	1.6282	+0.0056	1.6300	1.6250	1,184	2,117
Dec	-	1.6220	+0.0060	1.6220	-	1	186

UK INTEREST RATES

LONDON MONEY RATES

May 26	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7½ - 5	7½ - 7	7⅜ - 7¼	7⅝ - 7½	7¾ - 7⅝	7⅞ - 7¾
Sterling CDs	-	-	7⅜ - 7¼	7⅝ - 7½	7⅝ - 7½	7¾ - 7⅝
Treasury Bills	-	-	7¼ - 7⅛	7¼ - 7⅛	-	-
Bank Bills	-	-	7¼ - 7⅛	7⅜ - 7¼	7⅜ - 7¼	-
Local authority deps.	7⅛ - 7	7¼ - 7⅛	7⅜ - 7¼	7⅝ - 7½	7¾ - 7⅝	7¾ - 7⅝
Discount Market deps	7¼ - 7⅛	7¼ - 7⅛	-	-	-	-

UK clearing bank base lending rate 7¼ per cent from Nov 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc.
Ave. tender rate of discount on May 15 7.0281pc. ECGD fixed rate Stlg. Export Finance. Make up day Apr 30, 1998. Agreed rate for period May 26, 1998 to Jun 23, 1998, Scheme III 8.78pc. Reference rate for period Apr 1, 1998 to Apr 30, 1998 Schemes IV & V 7.527pc. Finance House Base Rate 8pc from May 1, 1998.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	92.500	92.510	+0.020	92.510	92.500	5498	158221
Sep	92.630	92.650	+0.040	92.650	92.630	6290	116237
Dec	92.790	92.810	+0.040	92.820	92.780	13404	118136
Mar	92.970	93.000	+0.045	93.010	92.970	9486	106508
Jun	93.150	93.190	+0.050	93.190	93.150	4248	84891

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
92625	0.005			0.120		
92750	0	0.060	0.185	0.240	0.160	0.125
92875	0			0.365		

Est. vol. total, Calls 6704 Puts 6879. Previous day's open int., Calls 422291 Puts 516364

EMS EUROPEAN CURRENCY UNIT RATES

May 26	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	357.000	337.120	+1.275	-5.57	5.39	37
Ireland	0.796244	0.781344	+0.0002	-1.87	1.42	13
Italy	1957.61	1939.97	+1.63	-0.90	0.43	7
Denmark	7.54257	7.49309	+0.00426	-0.66	0.18	4
Spain	168.220	167.160	+0.162	-0.63	0.15	4
Portugal	202.692	201.490	+0.195	-0.59	0.11	4
Finland	6.01125	5.97992	+0.00434	-0.52	0.04	3
France	6.63186	6.59807	+0.00583	-0.51	0.03	4
Germany	1.97738	1.96746	+0.00174	-0.50	0.02	5
Belgium	40.7844	40.5846	+0.0354	-0.49	0.01	4
Austria	13.9119	13.8441	+0.0115	-0.49	0.01	4
Netherlands	2.22799	2.21732	+0.00208	-0.48	0.00	4
NON ERM MEMBERS						
UK	0.653644	0.679589	-0.004086	3.97	-4.28	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. 16/3/98: Drachma joined ERM & Punt revalued by 3%. Other central rates adjusted. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	PUTS Jun	PUTS Jul	PUTS Aug
1.620	1.66	2.37	2.84	0.41	1.10	1.86
1.630	1.22	1.79	2.35	0.76	1.53	2.33
1.640	0.72	1.32	1.89	1.18	2.07	2.83

Previous day's vol., Calls 323 Puts 5,651. Prev. day's open int., Calls 14,384 Puts 13,704

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Jun	CALLS Jul	CALLS Jul	PUTS May	PUTS Jun	PUTS Jul
0.560	0.74	1.05	1.35	0.20	0.42	0.62
0.565	0.43	0.75	1.06	0.39	0.67	0.83
0.570	0.23	0.52	0.82	0.68	0.90	1.10

Previous day's vol., Calls 1,942 Puts 43 . Prev. day's open int., Calls 13,423 Puts 20,809

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.30	94.30	+0.01	94.30	94.28	26,088	448,364
Sep	94.23	94.25	+0.03	94.25	94.22	42,318	458,775
Dec	94.14	94.17	+0.03	94.16	94.13	57,592	383,642

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.94	94.94	+0.02	94.92	94.89	130	2,351
Sep	94.99	94.90	+0.02	94.89	94.88	89	1,595
Dec	-	94.89	-	94.90	-	4	42

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Aug	PUTS Sep
96375	0.020				0.020			
96500	0	0.005	0.010	0.005	0.125	0.285	0.290	0.285
96625	0				0.250			
96750	0	0	0	0	0.375	0.530	0.530	0.530

Est. vol. total, Calls 10440 Puts 10874. Previous day's open int., Calls 386612 Puts 457850

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
98500	0.010	0.050	0.055	0.170	0.370	0.595
98625	0			0.285		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 28289 Puts 9497

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	●Smith & Williamson	7.25
●Henry Ansbacher	7.25	●Robert Fleming & Co	7.25	Sun Bank	7.25
Banco Bilbao Vizcaya	7.25	●Guinness Mahon	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	●Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	C. Hoare & Co	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	Hongkong & Shanghai	7.25		
Brit Bk of Mid East	7.25	Investec Bank (UK) Ltd	7.25		
●Brown Shipley & Co Ltd	7.25	Julian Hodge Bank	7.25		
Citibank NA	7.25	●Leopold Joseph & Sons	7.25		
Clydesdale Bank	7.25	Lloyds Bank	7.25		
The Co-operative Bank	7.25	Midland Bank	7.25		
Coutts & Co	7.25	NatWestminster	7.25		
Cyprus Popular Bank	7.25	●Rea Brothers	7.25		
Duncan Lawrie	7.25	Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.25		

● Members of London Investment Banking Association
* In administration

Growers hope co-operation will begin to bear fruit

Hard times have made producer nations, meeting in Thailand, more willing to focus on common interests, writes Gary Mead

Buffeted by the El Niño weather phenomenon, beset by collapsing Asian currencies and bothered by increased competition from relatively new entrants to the market, the world's leading tropical fruit producers are beginning to understand what it might feel like to be dumped in a juicer.

However, difficult times not only concentrate the mind; they can also induce a greater willingness to co-operate.

This week in Thailand minds have been focusing on shared interests at the first inter-governmental meeting of tropical fruit producing and consuming nations, staged under the aegis of the United Nations Food and Agriculture Organisation.

This assembling of government representations has been driven by "market issues and trade considerations", says Paula Fortucci, the organisation's chief of raw materials and tropical and horticultural product services.

According to Ms Fortucci, the Thailand gathering is "not just a means of exchanging information" but is also "a potential forum for promoting the development of tropical fruits ... It also presents for the first time an opportunity to evaluate the status of government policies affecting trade in this sector."

Globally, the processed and fresh business of the four fruits under consideration in Thailand – pineapples, mangoes, avocados and papayas together account for 90 per cent of exports in fresh form – is worth $2.2bn annually, according to Ms Fortucci.

But it is a market where bargaining muscle is increasingly skewed towards a handful of powerful importers.

In 1997 the European Union is estimated to have accounted for 50 per cent of world consumption of fresh tropical fruit; North America another 26 per cent; and Japan 10 per cent.

Governments and retailers in these markets wield considerable power over the quantity and price of tropical fruit imports, which is a relatively small but rapidly growing trade.

In 1997 world production of the world's four biggest tropical fruits (in trade volume terms) is estimated to have been 55.8m tonnes. Less than 3.4 per cent of this – about 1.8m tonnes – was internationally traded as fresh fruit.

However, this relatively small quantity disguises the fact that, according to the FAO, the world trade for fresh tropical fruits in 1996 (the latest year for which complete trade data are available) grew by 14 per cent, while the export volume of processed versions of the same fruits is growing by, at most, 1 per cent annually. It seems that the world likes all tropical fruit – but prefers it fresh.

Asia accounts for 69 per cent of tropical fruit output, with more than 4m hectares devoted to these products, and 26 per cent of exports.

Latin America and the Caribbean have just 821,000 hectares given over to tropical fruit production, but have 38 per cent of total world exports, while Africa accounts for another 15 per cent of exports.

The meeting in Thailand comes at a time of tightening supplies for all four tropical fruits.

Prolonged and intense drought, believed to be caused by El Niño, in Mexico and Indonesia – the two biggest producers of avocados, with 39 per cent and 10 per cent shares, respectively – is likely to reduce substantially their harvests this year.

Meanwhile, Thailand – the world's biggest producer of pineapples, with 16 per cent of global output – has also been badly affected by lack of rain.

International mango prices have recently climbed 10 per cent and probably have much further to go, as reports accumulate suggesting that India's mango harvest will be one-third down this year.

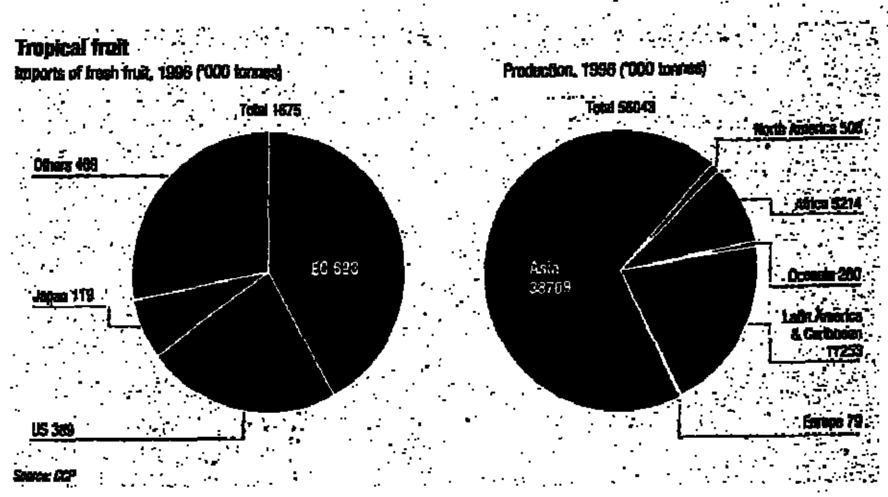
With almost 50 per cent of total global output of 22m tonnes in 1997, India is the world's biggest mango producer; but low temperatures and late rainfall at the end of 1997 will badly affect this year's crop.

These lowered crop forecasts and consequent supply squeezes will bring some short-lived income benefits for the producing countries and their agricultural smallholders, but the big producers clearly feel there is a need to close ranks and promote their tropical fruits in a more closely co-ordinated fashion.

And, at least as far as east Asian producers are concerned, this is one sector that should benefit from the severe currency and related economic crises that have hit the region since the start of this year.

The FAO points out that the region's imports of temperate fruits should decline, while its own tropical fruit exports should increase, as a result of local currency devaluations.

With a 20 per cent decline this year in freight rates for goods shipped from Asia, the region's competitiveness in this sector is again beginning to look sweet.



Poor crop thwarts Indian mango ambitions

By Kunal Bose in Calcutta

An unexpectedly big crop failure has put paid to India's ambition to increase mango export by 25 per cent to 33,750 tonnes in the current season.

Om Ladia, a trade official, said: "The target given by the Agricultural and Processed Foods Exports Development Authority earlier this season has become irrelevant as the foreign buyers are complaining about the very high prices of Indian mangoes.

"Besides the short crop, the quality of Indian mangoes is not up to the mark this season."

The Agricultural Directorate of the country's mango producing states estimates that the crop will be less than 7m tonnes in the current season, compared with nearly 11m tonnes in 1996-97.

Exports have been hit in particular by the 70 to 75 per cent fall in the production of Alphonso, Todapuri, Banganapalli and Badami varieties, which have good markets in the UK, the Middle East and south-east Asia.

Prices of these varieties have risen by between 100 and 200 per cent.

"India, the world's largest producer of mangoes, accounted for 15 per cent of the world's exports of the fruit last year. This will fall in the current season. But since mangoes are a cyclical crop – two bumper crops followed by a short one – India can very well regain, if not improve upon, its market share next year," said Mr Ladia.

The weather is largely to blame for the unexpectedly big fall in the size of this year's crop.

Unseasonal rain in November and December resulted in late flowering and pollination, while hail storms and unusually high temperatures in February and March badly damaged the crop in Andhra Pradesh, Maharashtra, Damil Nadu and Uttar Pradesh.

Farmers in many centres also complained of crop loss because of blight and other viruses.

The shortage of mangoes and the runaway increase in prices put pressure on the farmers to harvest the crop while it was still too green. According to the Andhra Pradesh Horticultural Department, the early harvesting harmed the fruit quality.

"We regard the current year as a bad dream. India, which produces more than 250 varieties of mango and which accounts for more than 60 per cent of the world crop in a normal year, should be able to give a big push to exports next year," said an exporter.

"Why should India be selling only a little over 1,000 tonnes of mangoes in the European Union, which consumes more than 40,000 tonnes," he added.

Trade officials have gained government support to help build up the market for Indian mangoes in the EU and the US, but agricultural experts said any future export success would depend, for example, upon India's ability to introduce appropriate post-harvest technology.

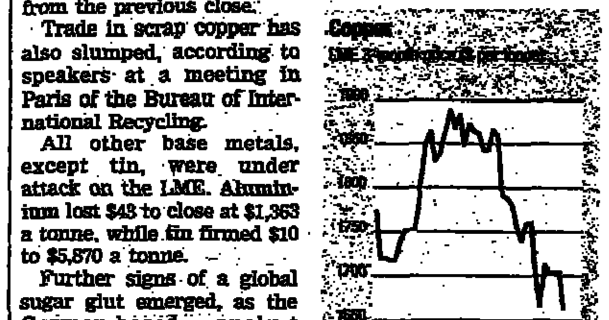
Copper hit by fund and bank selling

MARKETS REPORT

By Gary Mead

The bearish fundamentals for copper struck home yesterday on the London Metal Exchange, with the three-month price losing $40 in the morning session under selling pressure from both investment funds and banks. By the end of business it was $1,662 a tonne, down $36 from the previous close.

Trade in scrap copper has also slumped, according to speakers at a meeting in Paris of the Bureau of International Recycling.



All other base metals, except tin, were under attack on the LME. Aluminium lost $43 to close at $1,363 a tonne, while tin firmed $10 to $5,870 a tonne.

Further signs of a global sugar glut emerged, as the German-based analyst F.O. Licht increased its world production forecast for 1997-98 to 125.98m tonnes of raw sugar, against its February estimate of 124.51m tonnes.

On the London International Financial Futures Exchange the white sugar contract for August reached a low of $253 a tonne, down $4.70 from Friday, before recovering to $254.70.

At a meeting of the International Sugar Organisation in Havana, José Luis Rodríguez, Cuba's economy minister, declined to give a precise figure for this year's harvest, but other officials hinted it could be as low as 3m tonnes, well below the poorest crop in recent years of 3.3m tonnes of 1994-95.

Elsewhere on Liffe, coffee futures were weak again, on the back of receding anxiety concerning supplies from Indonesia and Vietnam, where local reports said the rainy season had finally begun, ending a nationwide drought causing crop losses in excess of $385m. The July robusta contract closed $45 lower at $1,834 a tonne. July cocoa also ended down, by £11 to £1,133 a tonne.

Oil markets fared poorly, stuck in the doldrums of over-production and seasonal lower demand. On the International Petroleum Exchange, July Brent blend was substantially below $14 a barrel throughout the day, and in later trading was 39 cents down from the previous close, at $13.67 a barrel.

The Gulf Co-operation Council is due to meet on June 14 – shortly before a scheduled meeting of the Organisation of Petroleum Exporting Countries – amid growing concern among some Opec members that further production cuts will be necessary if the price is to recover from a slide of more than 30 per cent since the start of the year.

At the weekend, Opec's president said he was unhappy at the current price levels. "If we see there is an increase in supply, then measures to correct the situation and to reduce supply are necessary," said Obeid bin Saif al-Nasseri.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1344.5-45.5	1371-72
Previous	1380.5-81.5	1405-06
High/low		1380/1362
AM Official	1339-40	1367.5-68.5
Kerb close		1362-62.5
Open int.	270,693	
Total daily turnover	62,660	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1247-52	1253-55
Previous	1270-75	1275-80
High/low		1275/1255
AM Official	1258-59	1255-65
Kerb close		1250-55
Open int.	7,976	
Total daily turnover	739	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	554.5-5.5	566-7
Previous	563.5-64.5	575-75.5
High/low		566/561
AM Official	553-53.5	564.5-65.5
Kerb close		561-2
Open int.	36,467	
Total daily turnover	10,531	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4810-20	4895-900
Previous	4820-30	4905-10
High/low		4950/4880
AM Official	4815-20	4885-90
Kerb close		4880-90
Open int.	51,017	
Total daily turnover	9,468	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5845-55	5875-80
Previous	5825-35	5870-75
High/low		5880/5770
AM Official	5910-15	5960-65
Kerb close		5850-55
Open int.	17,617	
Total daily turnover	9,205	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1022-23	1048.5-49
Previous	1055-56	1080-81
High/low		1070/1040
AM Official	1019-20	1044-44.5
Kerb close		1040-41
Open int.	79,068	
Total daily turnover	44,968	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1636.5-37.5	1675-76
Previous	1687-88	1704-05
High/low		1669/1656
AM Official	1642-43	1660-61
Kerb close		1664-66
Open int.	170,776	
Total daily turnover	58,252	

■ LME AM Official £/$ rate: 1.6337
LME Closing £/$ rate: 1.6367
Spot: 1.6367 3 mths: 1.6297 6 mths: 1.6249 9 mths: 1.6201

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
May	74.35	-1.35	75.20	74.25	508	837
Jun	74.55	-1.40	75.20	74.30	337	3,886
Jul	74.90	-1.45	76.50	74.50	2,318	28,632
Aug	75.00	-1.35	76.10	75.00	88	2,255
Sep	75.60	-1.35	76.50	75.30	289	7,257
Dec	75.80	-1.25	-	-	4	1,706
Total					3,768	67,960

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	295.70-296.20		
Opening	296.00-296.40		
Morning fix	296.55	182.12	433.46
Afternoon fix	297.95	182.61	438.14
Day's High	298.10-298.50		
Day's Low	295.50-295.70		
Previous close	300.10-300.60		

Loco Ldn Mean Gold Lending Rates (Vs US$)
1 month ....4.99 6 months 4.11
2 months ....4.48 12 months 3.81
3 months 4.36

Silver Fix	p/troy oz.	US cts equiv.
Spot	323.15	528.00
3 months	325.75	530.00
6 months	327.90	531.40
1 year	331.00	533.35

Gold Coins	$ price	£ equiv.
Krugerrand	296-300	181-183
Maple Leaf	[illegible]	[illegible]
New Sovereign	70-73	43-45

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	295.4	-4.3			6	3
Jun	295.6	-4.4	299.7	294.9	19,468	38,202
Aug	298.1	-4.4	302.5	297.5	10,312	31,549
Oct	300.3	-4.4	303.5	300.0	40	5,952
Dec	302.3	-4.4	306.0	301.5	284	19,211
Feb	304.0	-4.4	-	-	5	9,293
Total					30,127	148,813

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	378.7	+1.0	381.5	376.2	1,387	10,126
Oct	373.7	-3.0	377.0	375.0	180	1,356
Jan	371.2	-1.5	-	-	4	52
Apr	368.7	-1.5	-	-	1	14
Total					1,571	11,546

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	350.05	+0.05	351.00	340.00	112	1,412
Sep	310.05	+1.05	315.00	302.00	283	2,167
Dec	302.05	+1.05	-	-	3	407
Total					395	3,986

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	509.0	-14.0	510.0	510.0	6	24
Jul	510.5	-15.0	528.0	507.0	5,315	50,297
Sep	514.1	-14.3	530.0	511.0	76	7,616
Dec	516.7	-13.1	535.0	514.0	241	13,687
Jan	517.5	-13.1	-	-	-	16
Mar	518.2	-13.1	534.0	525.0	1	3,111
Total					5,693	83,033

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	14.50	-0.28	14.90	14.48	58,644	114.6k
Aug	15.09	-0.25	15.44	15.06	22,125	61,903
Sep	15.54	-0.24	15.71	15.52	5,978	39,941
Oct	15.92	-0.21	16.02	15.82	4,163	24,425
Nov	16.26	-0.15	16.26	16.24	1,446	14,561
Dec	16.45	-0.15	16.52	16.42	3,114	39,708
Total					98,791	438,319

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	13.68	-0.38	14.09	13.65	22,116	82,054
Aug	13.98	-0.34	14.37	13.95	3,880	44,225
Sep	14.33	-0.29	14.65	14.28	2,140	17,315
Oct	14.63	-0.29	14.95	14.62	538	11,725
Nov	14.98	-0.19	15.20	14.88	252	9,572
Dec	15.08	-0.30	15.39	15.08	1,095	36,094
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	39.25	-0.46	40.10	39.00	14,961	31,933
Jul	40.00	-0.64	41.00	39.75	11,525	42,195
Aug	41.20	-0.59	42.25	41.10	2,828	18,710
Sep	42.50	-0.59	43.05	42.60	997	12,188
Oct	44.10	-0.34	44.45	44.00	1,830	10,740
Nov	45.40	-0.24	45.75	45.30	491	10,144
Total					35,283	184,876

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	120.00	-3.25	124.25	119.75	9,860	29,576
Jul	123.00	-3.25	127.00	123.00	4,762	16,677
Aug	126.75	-2.75	130.00	126.50	805	11,931
Sep	130.50	-2.50	133.25	130.50	450	11,448
Oct	134.25	-2.25	136.50	134.00	179	15,643
Nov	137.25	-2.50	139.00	137.00	301	6,561
Total					15,481	147,840

■ NATURAL GAS IPE (1,000 therms; pence per therm)

Jun	8.980	+0.030	8.980	8.940	195	1,000
Jul	8.670	+0.020	-	-	-	1,115
Total					1,730	17,235

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	2.105	+0.011	2.120	2.070	50,890	37,353
Jul	2.125	+0.001	2.140	2.090	24,681	37,603
Aug	2.175	+0.001	2.185	2.150	6,419	24,226
Sep	2.220	-	2.230	2.195	3,718	16,023
Oct	2.275	-	2.280	2.260	7,615	18,929
Nov	2.430	-0.005	2.445	2.425	3,540	12,632
Total					107,280	289,859

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	48.35	-0.71	48.65	48.05	12,646	27,742
Jul	49.60	-0.60	49.80	49.25	9,117	37,519
Aug	50.30	-0.58	50.55	50.10	2,635	19,958
Sep	50.40	-0.36	50.50	50.30	1,114	13,771
Oct	49.20	-0.76	49.45	49.45	127	4,867
Nov	49.61	-	-	-	16	1,852
Total					25,706	109,172

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	76.00	+1.00	76.00	75.25	23	1,277
Sep	76.00	-0.25	-	-	-	168
Nov	78.00	-0.25	-	-	-	3,213
Jan	80.00	-0.25	80.00	80.00	9	712
Mar	82.00	-0.25	82.00	82.00	12	434
Total					82	5,818

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	292.25	-6.25	298.00	291.00	6,554	68,183
Sep	302.75	-6.25	308.00	301.50	1,371	17,832
Dec	318.25	-6.00	320.50	315.00	1,939	25,248
Mar	332.00	-6.00	335.00	330.00	365	5,344
May	338.00	-6.00	-	-	4	617
Jul	346.00	-1.50	346.50	345.50	9	366
Total					10,654	118,979

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	240.50	-6.75	245.50	240.25	15,017	145,547
Sep	246.75	-6.75	252.00	246.50	2,316	40,919
Dec	252.25	-7.00	258.75	252.00	6,380	124,841
Mar	260.25	-7.00	262.00	260.25	289	12,993
May	265.00	-6.75	266.50	264.75	71	2,396
Jul	268.50	-7.00	270.50	269.00	115	6,907
Total					24,200	336,780

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	72.50	-0.25	-	-	-	24
Nov	74.50	-0.25	74.50	74.50	35	821
Jan	76.50	-0.25	-	-	-	182
Mar	78.50	-0.25	-	-	-	42
May	80.50	+0.25	-	-	-	35
Total					35	1,104

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	623.50	-11.75	634.00	623.00	19,285	62,704
Aug	619.00	-12.25	628.75	618.50	3,447	17,486
Sep	605.50	-12.75	611.50	605.00	578	5,149
Nov	599.75	-13.25	609.00	599.00	7,759	48,715
Jan	606.75	-13.00	616.50	606.50	114	3,989
Mar	613.50	-13.50	619.50	613.50	18	1,149
Total					31,274	142,206

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	26.71	-0.62	27.23	26.68	20,050	67,552
Aug	26.87	-0.64	27.25	26.82	5,642	22,050
Sep	26.92	-0.62	27.30	26.91	1,762	15,951
Oct	26.78	-0.56	27.10	26.75	384	8,146
Dec	26.55	-0.56	26.88	26.51	5,394	28,831
Jan	26.40	-0.55	26.75	26.40	84	2,385
Total					33,382	146,851

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	155.1	-3.6	158.7	154.8	13,653	60,462
Aug	155.9	-3.7	159.0	155.7	4,075	20,229
Sep	156.9	-3.8	159.5	156.7	384	14,335
Oct	158.5	-3.7	159.0	156.3	595	9,943
Dec	158.8	-4.2	161.5	158.5	3,739	25,842
Jan	160.2	-4.1	162.5	160.1	84	3,157
Total					22,588	138,800

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	182.0	-	-	-	-	-
Nov	80.0	-	-	-	-	3
Mar	122.0	-	-	-	-	-
Apr	163.0	-3.0	164.0	159.6	52	1,600
May	173.0	-3.0	-	-	-	29
Total					52	1,668

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
May	950	-	-	-	20	290
Jun	875	-20	890	875	15	107
Jul	855	-25	875	850	58	475
Oct	980	-10	985	985	10	298
Jan	1015	-15	-	-	-	133
Total					83	1,314

	Close	Prev
BFI	960	988

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	512.00	+2.00	512.50	510.00	49	446
Sep	531.00	+1.50	531.00	531.00	6	533
Total					55	11686

FUTURES DATA
All futures data supplied by CMS.

Tea from the Tea Brokers' Association Mombasa: Brighter and Medium BP1s appreciated by 10-15 cents but Lower Mediums were easier by 6-8 cents. Plainer sorts were firm but fibrous types were easier. Brighter liquoring PF1s were again substantially dearer, particularly later invoices, while mediums appreciated by 5-20 cents. Lower Mediums opened dearer by 5-17 cents but eased as the sale progressed. CTC quotes for Best BP1s was $2.40-$2.55 and for Best PF1s was $2.83-$3.26. For Best PDs it reached $2.58-$2.79, and for Best D1s $2.40-$2.88.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1121	-7	1128	1128	1	73
Jul	1133	-11	1150	1130	2,148	28,075
Sep	1154	-10	1166	1150	944	21,433
Dec	1173	-9	1185	1170	975	32,898
Mar	1189	-9	1195	1186	468	37,437
May	1201	-9	1205	1205	29	13,291
Total					4,929	147,832

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1700	-17	1715	1698	5,150	26,454
Sep	1722	-18	1736	1720	1,997	15,855
Dec	1750	-14	1760	1748	515	18,155
Mar	1772	-16	1775	1772	582	9,957
May	1787	-16	-	-	18	3,899
Jul	1802	-16	-	-	1	1,573
Total					8,263	81,887

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
May 22		
Daily	1346.08	1338.86

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1941	-58	1985	1940	167	1,388
Jul	1831	-48	1875	1825	2,772	23,067
Sep	1786	-38	1825	1780	1,233	8,891
Nov	1751	-34	1778	1755	82	2,974
Jan	1719	-31	-	-	-	285
Mar	1681	-34	-	-	-	357
Total					4,264	36,997

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	131.10	-5.30	135.00	129.50	5,424	15,818
Sep	129.75	-4.25	133.00	128.50	1,312	8,484
Dec	125.75	-3.25	128.00	124.50	347	7,025
Mar	121.25	-3.00	123.75	121.00	142	2,693
May	119.25	-3.00	118.75	119.75	31	1,096
Jul	117.25	-3.00	118.00	117.00	1	771
Total					7,259	36,283

■ COFFEE (ICO) (US cents/pound)

May 26	Price	Prev. day
Comp. daily	n/a	117.06
15 day average	n/a	114.88

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	251.5	-6.9	258.5	252.0	2,534	15,968
Oct	248.3	-8.1	256.0	249.5	739	11,769
Dec	250.6	-8.3	258.3	254.1	24	2,028
Mar	255.8	-8.1	262.6	257.0	273	2,443
May	258.8	-7.1	-	-	-	593
Aug	262.3	-7.1	-	-	-	294
Total					3,570	34,113

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	8.56	-0.33	8.83	8.55	4,234	72,768
Oct	8.80	-0.25	8.95	8.78	1,576	54,864
Mar	9.32	-0.19	9.44	9.30	275	28,146
May	9.32	-0.21	9.40	9.36	22	4,076
Jul	9.36	-0.21	9.51	9.40	-	3,655
Oct	9.37	-0.20	9.46	9.37	2	4,109
Total					6,109	167,318

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	68.19	+0.20	68.50	66.50	12,448	30,168
Oct	70.80	-0.09	70.85	69.27	568	4,423
Dec	71.53	-0.23	71.70	70.25	7,671	35,661
Mar	72.70	-0.25	72.70	71.55	307	7,854
May	73.20	-0.25	72.75	72.40	35	3,593
Jul	73.75	-0.35	73.75	73.00	39	2,282
Total					21,285	87,523

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	107.50	-3.45	111.45	107.30	1,434	21,748
Sep	110.70	-3.40	114.40	110.70	275	6,723
Nov	113.30	-2.85	115.90	113.85	50	4,683
Jan	114.90	-2.85	-	-	55	2,171
Mar	117.20	-2.85	-	-	1	1,027
May	119.50	-2.85	-	-	-	680
Total					1,814	37,182

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

May 26	May 22	month ago	year ago
n/a	1631.2	1637.6	2015.5

■ CRB Futures (Base: 1967 = 100)

May 22	May 21	month ago	year ago
219.13	218.57	-	-

■ GSCI Spot (Base: 1970 = 100)

May 22	May 21	month ago	year ago
n/a	158.00	169.06	201.26

LME WAREHOUSE STOCKS (tonnes)

Aluminium	+800	to	542,125
Aluminium alloy	+940	to	53,000
Copper	+25	to	268,700
Lead	+975	to	107,400
Nickel	-258	to	63,842
Zinc	-875	to	440,150
Tin	-65	to	5,510

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	65.300	-0.175	65.650	64.900	4,148	32,975
Aug	66.750	-	67.050	66.200	4,198	31,604
Oct	67.950	-0.250	67.275	66.725	1,597	15,952
Dec	68.500	-0.275	68.775	68.325	214	5,908
Feb	69.525	-0.225	69.750	69.350	41	2,195
Apr	70.475	-0.350	70.800	70.450	9	663
Total					10,207	89,318

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	61.300	-0.175	61.725	61.050	3,164	9,438
Jul	59.975	-0.325	60.500	59.750	3,183	8,978
Aug	57.000	-0.350	57.475	56.550	1,247	5,908
Oct	52.425	-0.150	52.800	52.175	386	3,927
Dec	52.225	-0.025	52.800	52.100	130	3,402
Feb	54.850	-0.300	55.250	54.850	216	793
Total					9,346	33,803

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	53.000	-1.200	54.600	53.000	117	199
Jul	49.075	-2.275	51.650	49.000	1,375	4,570
Aug	47.175	-1.925	49.600	47.100	472	1,917
Total					1,967	6,392

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jul	Oct	Jul	Oct
1350	31	71	28	40
1400	12	47	59	64
1450	4	29	100	96
■ COPPER (Grade A) LME	Jul	Oct	Jul	Oct
1600	84	122	32	690
1700	35	73	83	110
1800	12	41	158	175
■ COFFEE LIFFE	Jul	Sep	Jul	Sep
1850	56	130	75	194
1900	39	119	108	233
1950	29	110	148	274
■ COCOA LIFFE	Jul	Sep	Jul	Sep
1100	45	75	12	21
1125	30	60	22	31
1150	19	49	36	45
■ BRENT CRUDE IPE	Jul	Aug	Jul	Aug
1350	-	-	23	-
1400	45	-	-	72
1450	16	62	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

Dubai	$12.04-2.14x	-0.14
Brent Blend (dated)	$14.23-4.26	-0.065
Brent Blend (Jul)	$13.73-3.76	-0.135
W.T.I.	$14.45-4.47x	-0.195

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$157-159	-3
Gas Oil	$118-119	-3
Heavy Fuel Oil	$64-66	
Naphtha	$124-126	-6
Jet fuel	$131-132	-3
Diesel	$125-126	-4

■ NATURAL GAS (Pence/therm)

Bacton (Jun)	8.95-9.00	+0.025

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

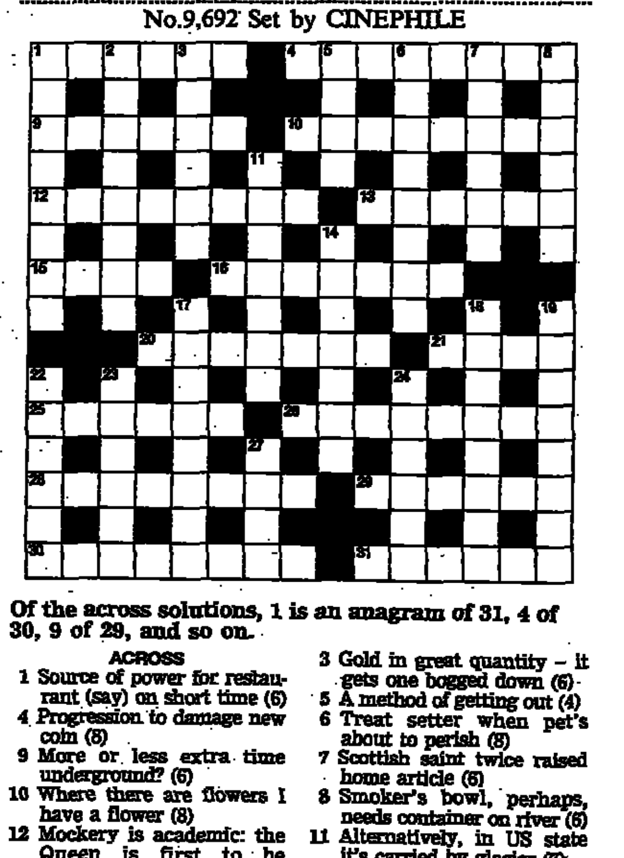
Gold (per troy oz)♣	$295.95	-4.40
Silver (per troy oz)♣	528.00c	-6.50
Platinum (per troy oz.)	$378.00	-1.00
Palladium (per troy oz.)	$378.00	+26.00
Copper	81.0c	+2.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	22.51r	+0.31
Tin (New York)	281.5	+1.9
Cattle (live weight)	85.57p	+1.04*
Sheep (live weight)	123.02p	-13.32*
Pigs (live weight)†	65.72p	-1.11*
Lon. day sugar (raw)	$225.40	-2.40
Lon. day sugar (wte)	$265.10	-0.40
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Jul)♥	50.50p	-0.50
Rubber (Aug)♥	50.00p	-0.50
Rubber (KL RSS No1)	301.50m	-2.5
Coconut Oil (Phil)§	710.0y	+15.0
Palm Oil (Malay.)§	657.5y	-2.5
Copra (Phil)§	5475.0y	
Soyabeans (US)	171.8	
Cotton Outlook'A' index	85.55	+0.80
Wooltops (64s Super)	349p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jun/Jul. x Jul. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 1,882 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,692 Set by CINEPHILE

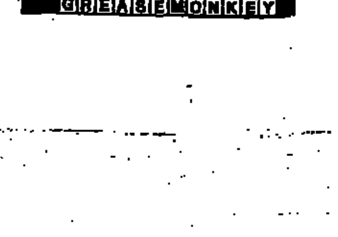


Of the across solutions, 1 is an anagram of 31, 4 of 30, 9 of 29, and so on.

ACROSS
1 Source of power for restaurant (say) on short time (6)
4 Progression to damage new coin (8)
9 More or less extra time underground? (6)
10 Where there are flowers I have a flower (8)
12 Mockery is academic: the Queen is first to be included (8)
13 Interval lasting a month, with hail (6)
15 Without water or loose ends (4)
16 Battle in the shade (7)
20 Tycoon goes west holding a biter (7)
21 Stake returned by smoker? (4)
25 Oral mostly taken by model bird (6)
26 Club team engaged in civil war? (8)
28 Disposal of liquid by physician, first when old (8)
29 Force, say, of 100 during Prohibition round opening (6)
30 Singer in church continuing to embrace the sweet girl (8)
31 Club rendering of my jour (6)

DOWN
1 After a period of years part of the Bible is in decline (8)
2 Stepmother's romance about car crash (8)
3 Gold in great quantity – it gets one bogged down (6)
5 A method of getting out (4)
6 Treat setter when pet's about to perish (8)
7 Scottish saint twice raised home article (6)
8 Smoker's bowl, perhaps, needs container on river (6)
11 Alternatively, in US state it's carried by glacier (7)
14 Remainder paintings after half-time? (7)
17 Composer at pub to make allegations during raising of rent (8)
18 Groovy, perhaps, as said about "the King and I" (8)
19 Limit for earl that's nearly white? (4,4)
22 Poetical sequel to Lom from Milan? (6)
23 Root to shoot at ring (6)
24 Shakespearean character, English within English? (6)
27 City of anagrams (4)

Solution 9,691



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OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd

PO Box 246, St Peter Port, Guernsey 01481 723021

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

BT Fund Managers (Ireland) Ltd (u)

80 Harcourt Street, Dublin 2

Lazard Investment Funds Ltd - Contd.

Morgan Grenfell Investment Funds Ltd (u)

20 Finsbury Circus, London EC2M 1UT 0171 545 7474

Baring Mutual (Ireland) Ltd

Blackstone Franks Managers Ireland Ltd

Bordier Invest (Ireland) Ltd

Buchanan Asset Management (Ireland) Ltd

Calpius Fund

Capital Vision Fund Plc

Swiss Life Investment Fund – Proteus (u)

IFSC Hse, Custom Hse Quay, Dublin 1

Tilney (Ireland) Ltd

20/22 Lower Hatch Street, Dublin 2 00 3531 7902073

Findlay Park US Smaller Companies Fund Plc

Fleming Private Fund Plc

Foreign & Colonial Emerging Markets Ltd

Formosa High Tech Fund

Framlington Investment Mgmt (Ireland) Ltd

IRELAND (REGULATED)(**)

ABN AMRO Global Liquidity Funds Plc (u)

AIB Fund Management Ltd

Frank Russell Investments (Ireland) Ltd

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

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OFFSHORE INSURANCES

LUXEMBOURG (REGULATED)(**)

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OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or –	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	†N	[illegible]	–8	[illegible]	407½	2,202	4.0	14.9
Bulmer (HP)	†	[illegible]	+1	[illegible]	[illegible]	–	5.2	11.1
Burn Stewart	†	21		[illegible]	[illegible]	68	10.1	–
Diageo	[illegible]	750½	+15½	[illegible]	[illegible]	6,700	2.4	32.8
Glenmorangie A	[illegible]	[illegible]		[illegible]	[illegible]	154	2.3	[illegible]
B	[illegible]	[illegible]		[illegible]	[illegible]	–	1.0	[illegible]
Highland	†	[illegible]	+1	[illegible]	[illegible]	9	3.7	14.2
5¼pc Cv Sb Bd		[illegible]		[illegible]	[illegible]	–	6.9	–
Kirin Y	[illegible]	[illegible]	–10½	[illegible]	[illegible]	–	0.9	–
Matthew Clark	[illegible]	[illegible]	–1	277½	157	154	12.0	6.7
Merrydown	†	[illegible]	+2½	[illegible]	37½	–	7.4	–
Seagram C$		1271½	[illegible]	[illegible]	[illegible]	–	1.0	–

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Continued

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Continued

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

Approved by the Inland Revenue

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

[illegible]

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Continued

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Continued

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Continued

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

[illegible]

GUIDE TO LONDON SHARE SERVICE

[illegible]

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Please note that FT Company Focus/Focus Plus reports ceased to be available as from May 4th 1998. However ShareFinder company reports, incorporating current and historic financial information, key performance data and concensus recommendations, may still be purchased by calling 0870 601 4500.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 50p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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The share prices printed on these pages are also available on the Internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Footsie falters after surging above 6,000 level

MARKET REPORT

By Philip Coggan, Markets Editor

Investors were evidently refreshed by the May bank holiday weekend since they returned to their desks and immediately sent the FTSE 100 index past the 6,000 level.

But the rain that swept across London seemed to depress traders' spirits and the market lost much of the early ground in the afternoon. At the close, Footsie was 15.1 points higher at 5,970.7.

Footsie recrossed the 6,000 level in the first few minutes of trading on the back of some programme trading. The high for the day was 6,042.6, up 87 points.

The international background proved supportive. With the exception of Korea, Asian markets were generally calm and several European bourses had recorded all-time highs while London was closed on Monday.

Wall Street, having opened strongly, put in a fairly patchy performance during the London afternoon.

The benchmark 10-year gilt was around half a point higher at the close, helped by a Barclays forecast that base rates – currently 7.35 per cent – will fall to 5.5 per cent by the end of 1999.

However, the market may have been inhibited by a sharp rebound in sterling which gained nearly 3 pfg against the D-Mark to carry it back close to the DM2.90 level.

Bob Semple, market strategist at BT Alex Brown, said: "I think the market is moving sideways at the moment. The pay data has clearly taken a turn for the worse and that implies no early cut in interest rates and a squeeze on margins. There could be some profit disappointments to come. Having said that, the supply/demand balance still looks favourable for shares and any downside looks limited."

Once again, the FTSE 250 and SmallCap indices surged ahead to set new peaks. The 250 index ended at an all-time intra-day and closing high of 5,920.9; the SmallCap gained 4.3 to a closing high of 2,792.7. The FTSE All-Share index, heavily weighted towards Footsie stocks, rose 7.73 to 2,841.04.

There was more bid-related dealing surrounding the Mirror Group, which revealed that it had been in talks with Trinity, the regional newspaper group. Discussions have now halted.

Other media stocks in the limelight included Pearson, which owns the Financial Times, and United News & Media. The two stocks were the best performers in the Footsie.

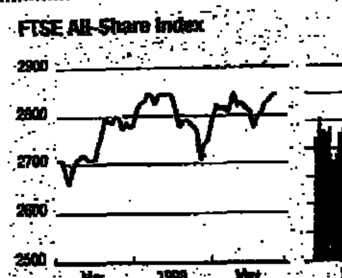
If Footsie, which has failed to regain its early April peak, is stuck in a trading range of 6,105.8, then stock-picking will be all the more vital for managers seeking to improve performance.

Analysis by Dresdner Kleinwort Benson shows that UK pension funds have been taking some pretty heavy sector bets on the market.

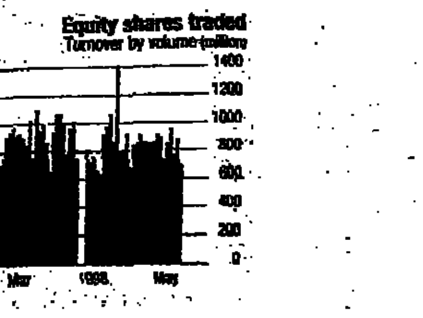
They have more than twice the sector weighting in oil exploration stocks and are also heavily biased towards the paper, property, building materials and gas sectors. The big underweight positions include other financials, household goods, support services and retail banks.

Volume was 893.6m shares by the 6pm count, of which 56 per cent was in non-Footsie stocks.

FTSE All-Share index



Equity shares traded
Turnover by volume (million)



Indices and ratios

FTSE 100	5970.7	+15.1	FT 30	3900.1	+11.2
FTSE 250	5920.9	+23.1	FTSE Non-Fins p/e	23.85	23.78
FTSE 350	2905.5	+8.1	FTSE 100 Fut Jun	5998.0	+51.0
FTSE All-Share	2841.04	+7.73	10 yr Gilt yield	5.77	5.83
FTSE All-Share yield	2.78	2.77	Long gilt/equity yld ratio	2.14	2.14

Best performing sectors

1 Alcoholic Beverages +1.5
2 Oil Integrated +1.4
3 Electronic & Elec +1.4
4 Media +1.3
5 Oil Exploration +1.3

Worst performing sectors

1 Gas Distribution −1.8
2 Extractive Inds −1.5
3 Chemicals −1.0
4 Retailers: General −0.8
5 Insurance −0.7

Index boost for Halifax

COMPANIES REPORT

By Peter John and Steve Thompson

Halifax moved towards the top of the day's Footsie rankings as buyers picked up the stock ahead of a significant international listing.

At the close of trading on Friday, the bank joins the Morgan Stanley Capital International index of the world's 1,575 leading companies.

The index is followed particularly closely by US investors looking for exposure to overseas companies. Inclusion marks the first anniversary of the bank's demutualisation.

One analyst said that, because the shares have been held very strongly by individual investors, overseas buyers had been unable to pick up stock, but a place in the MSCI could signal a broader market.

However, MSCI would not detail the weighting Halifax will receive in the index.

The shares received an additional boost after a report at the weekend signalled that Abbey National was backing away from any potentially bruising discounting battle to gain market share.

Finally, investors were aware that Halifax still has £820m to spend on its planned £1bn share buy-back.

The shares, which were until recently more than 20 per cent below their peak, jumped 32½ to 875p on chunky turnover of 5.3m shares, the heaviest volume in the sector. Abbey National fell 14 to £10.76.

Takeover speculation surging around Mirror Group pushed the stock up a further 12 per cent even though the company poured cold water on weekend press reports of a deal with Trinity International.

Mirror, which was holding a board meeting yesterday, said it had held talks with Trinity, but they had been called off.

It also said it was waiting for more insight into the intentions of Axel Springer, the German publisher, before making any comment to shareholders.

Nevertheless, the market has scented blood and firmly believes Mirror needs to do a deal. Analysts have a takeout price between 250p and 300p – Merrill Lynch has factored in 285p.

They believe the Midland Independent Newspapers regional papers will be sold off within the UK, while the main titles, which form the bulk of the company could go to a continental buyer. Mirror shares gained 25½ to 243½p.

For the regionals Newsquest – steady at 325½p – and Johnston Press – up 4 at 232½p – have been mentioned. For the national titles, Telgraaf of the Netherlands has been seen as a possibly buyer.

Meanwhile, the prospect of newspaper consolidation trickled over to United News & Media, the owner of Express newspapers.

Also, analysts said that SDN, a digital television venture in which United holds a stake, had received its licence. The shares rose 36½ to 889½p.

The Falklands factor was again instrumental in driving shares in the oil exploration arena sharply higher.

Desire Petroleum, the stock which has captured the imagination of institutional and private investors since its exploration efforts off the coast of the Falkland Islands commenced, made further rapid progress yesterday.

It advanced almost 90 in early trading before coming off and finishing the day a net 30 higher at 445p.

The stock, floated about a month ago at 125p, has delivered an electrifying performance, almost trebling last week alone after a statement from the operator of the latest drilling effort that it had encountered traces of hydrocarbons.

Falklands factor

Lasmo, also involved in the offshore Falkland Islands drilling effort, rose 8 to 297p on turnover of 4.3m shares.

Compass Group, one of the best performers in the FTSE 100 during the early part of the day, reversed abruptly in midsession and finished with the wooden spoon.

Dealers said the stock, which raced up over 16 per cent last week, easily Footsie's best performance, encountered various flurries of profit-taking which drove the share price lower.

"There have been plenty of rumours that a bid could be on the way for Compass, but nothing has happened – hence the sell-off," said one specialist.

Compass closed a net 69 easier at £12, with turnover a sizeable 2m shares.

Worries about Asia dogged HSBC, which fell 20 to £16.40. But Standard Chartered, the other UK bank with big exposure to the region, 19½ to 812½p.

ICI fell 33 to £11.58 as SBC Warburg Dillon Read downgraded its recommendation to "hold".

The downgrade was said to be on valuation grounds after recent share price outperformance.

Pearson, the media conglomerate that owns the Financial Times, rose 48 to £11.11 – a new high – after one newspaper said the company might seek a listing in New York.

SmithKline Beecham shed 7 to 692p even though the US Food and Drug Administration was expected yesterday afternoon to approve a vaccine against Lyme's disease. The disease is prevalent in the eastern United States and some analysts have forecast sales up to $400m a year. But FDA approval was largely discounted.

British Steel was chased higher in spite of the negative impact of a strengthening pound which saw sterling climb almost 3 pfg.

The upside momentum came from positive comments from at least two of the leading securities houses, notably Salomon Smith Barney and HSBC.

At the close British Steel shares were 2¾ ahead at 163½p.

Cellular phone stocks made rapid progress, Vodafone settling 23 higher at 676p, after good turnover of 8.1m shares, and Orange 9 firmer at 450p.

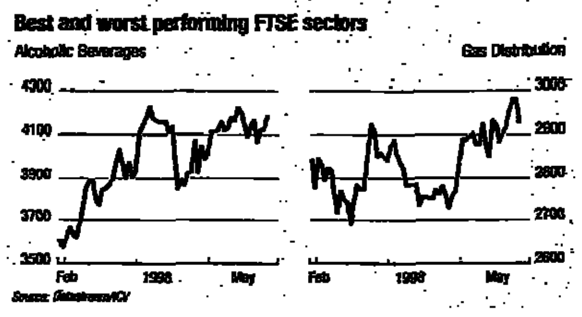
Securicor, still boosted by hopes that BT will buy out its minority 40 per cent holding in Cellnet, climbed 6½ to 443½p.

There was no respite, however, for Ionica, shares in which dropped a further 11½ or 31 per cent to 24p, amid frantic selling by small investors.

FI Group vied with Mirror Group for the top spot in the FTSE 250, eventually having to settle for second place, up 170 at £17.27½p.

Admiral raced up 60 to £12.55, Logica 72½ to £18.72½ and Sage 55 to £15.72½.

Best and worst performing FTSE sectors



FT 30 INDEX

	May 26	May 22	May 21	May 20	May 19	Yr ago	*High	*Low
FT 30	3900.1	3888.9	3883.7	3867.7	3844.2	3002.7	3920.3	3883.1
Ord. div. yield	2.84	2.84	2.85	2.88	2.88	3.66	4.22	2.79
P/E ratio net	24.27	24.20	24.16	24.04	23.94	18.14	25.41	15.80
P/E ratio nil	24.06	23.98	23.94	23.83	23.72	17.96	25.19	15.71

FT 30 since compilation: high 3920.1 11/05/98; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3888.9	3925.2	3916.8	3916.4	3910.8	3910.4	3911.5	3913.7	3901.9	3944.2	3883.1

 *For 1998.

STOCK MARKET TRADING DATA

	May 26	May 22	May 21	May 20	May 19	Yr ago
SEAQ bargains	67,625	61,675	62,886	63,559	61,238	45,881
Equity turnover (£m)†	-	-	-	3054.6	4250.6	2495.1
Equity bargains†	-	-	-	52,946	52,692	43,840
Shares traded (m)†	-	-	-	748.9	781.8	659.0
Total market bargains‡	-	62,107	64,211	66,267	68,825	-
Total turnover (£m)‡	-	3643.7	4141.1	4268.8	5355.7	-
Total shrs traded (m)‡	893.6*	903.8	982.3	994.9	1027.0	-
Tradepoint turnover (£m)	26.3	27.1	24.2	32.9	25.2	6.5
Tradepoint shrs traded	7.7087	6.301	6.018	7.421	8.612	960

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	844	Total Highs	348	Total contracts	13,113
Total Falls	762	Total Lows	44	Calls	5,392
Same	1,394			Puts	7,721

May 26 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	6010.0	5995.0	+38.0	6045.0	5960.0	18484	157262
Sep	6100.0	6062.5	+38.5	6112.0	6058.0	1247	11943
Dec	-	6148.0	+38.0	-	-	0	250

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	5950.0	+32.0	-	-	0	6678

FTSE 100 INDEX OPTION (LIFFE) (*5895) £10 per full index point

[illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FTSE GOLD MINES INDEX

	May 26	% chg on day	May 22	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (33)	1197.62	-0.8	1196.80	1553.37	2.82	-	1686.47	991.23
Regional Indices								
Africa (14)	1305.39	-2.5	1339.33	1751.43	4.09	14.82	1751.43	921.78
Australasia (7)	1365.40	-1.7	1389.43	1748.20	2.44	388.08	1787.42	833.63
North America (11)	1135.60	-0.1	1137.03	1488.02	1.10	192.90	1574.16	954.86

[illegible]

FTSE Actuaries Share Indices The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	May 26	Day's chge%	May 22	May 21	Year ago	Gross yld%	Net yld%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5970.7	+0.3	5955.6	5935.6	4681.6	2.75	2.33	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250	5920.9	+0.4	5897.8	5854.5	4508.0	2.80	2.36	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250 ex IT	5980.1	+0.4	5957.7	5910.8	4518.5	2.87	2.43	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

FTSE Actuaries Industry Sectors

[illegible]

Hourly movements

[illegible]

TRADING VOLUME

Major Stocks yesterday

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 26 / Sch)

BELGIUM/LUXEMBOURG (May 26 / Frs.)

CZECH REP (May 26 / Koruna)

DENMARK (May 26 / Kr)

FINLAND (May 26 / Mkk)

FRANCE (May 26 / Frs.)

GERMANY (May 26 / Dm.)

GREECE (May 26 / Drachma)

ITALY (May 26 / Lira)

NETHERLANDS (May 26 / Fls.)

NORWAY (May 26 / Kroner)

POLAND (May 26 / Zloty)

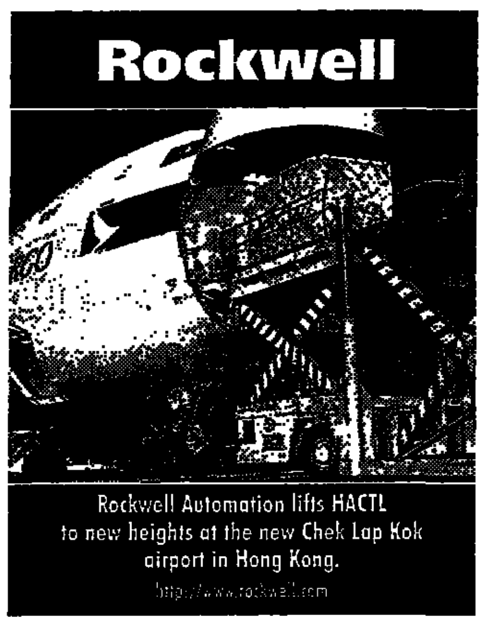
PORTUGAL (May 26 / Escudo)

SPAIN (May 26 / Pts.)

SWEDEN (May 26 / Kronor)

SWITZERLAND (May 26 / Frs.)

TURKEY (May 26 / Tk Lira)



PACIFIC

JAPAN (May 26 / Yen)

HONG KONG (May 26 / H.K.$)

INDONESIA (May 26 / Rupiah)

MALAYSIA (May 26 / MYR)

NEW ZEALAND (May 26 / NZ $)

SINGAPORE (May 26 / S$)

AUSTRALIA (May 26 / Aust$)

SOUTH KOREA (May 26 / Won)

TAIWAN (May 26 / TW $)

THAILAND (May 26 / Baht)

AMERICAS

CANADA

TORONTO (May 26 / Can $)
4 pm close

MONTREAL (May 26 / Can $)
4 pm close

MEXICO (May 26 / Peso)
12.30 pm

AFRICA

SOUTH AFRICA (May 26 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY MAY 25 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY MAY 22 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	199.06	−1.0	181.29	172.54	182.88	211.78	0.1	3.74	201.00	182.41	172.42	183.64	211.45	243.87	190.28	231.51
Austria (23)	251.61	−0.2	229.16	218.09	231.17	231.04	0.3	1.42	252.19	228.86	216.33	230.41	230.28	252.19	181.60	197.86
Belgium (26)	355.09	0.1	323.40	307.78	326.23	319.05	0.6	2.27	354.83	322.00	304.38	324.19	317.20	355.09	234.33	252.34
Brazil (26)	218.17	−2.0	198.70	189.11	200.45	462.63	−2.0	2.20	222.74	202.14	191.07	203.51	472.16	322.44	184.94	258.19
Canada (120)	248.26	0.7	226.11	215.19	228.09	260.54	0.7	1.54	246.45	223.65	211.41	225.17	258.84	248.78	199.10	207.96
Denmark (34)	511.76	0.4	466.09	443.59	470.18	468.58	0.9	1.29	509.73	462.57	437.25	465.71	464.37	521.81	375.32	388.69
Finland (26)	442.14	0.2	402.68	383.24	406.21	498.40	0.7	1.83	441.27	400.45	378.53	403.17	494.71	451.12	267.45	279.84
France (79)	328.60	1.1	299.27	284.82	301.90	305.51	1.7	1.93	324.86	294.81	278.67	296.81	300.32	328.60	213.42	230.92
Germany (58)	300.46	−0.4	273.64	260.43	276.05	276.05	0.1	1.19	301.72	273.81	258.82	275.67	275.67	301.72	204.89	213.83
Greece (37)	307.94	2.3	280.45	266.91	282.91	666.45	2.4	1.39	300.95	273.11	258.16	274.96	650.79	307.94	264.68	–
Hong Kong, China (66)	286.39	−0.1	260.83	248.24	263.12	284.90	−0.1	5.56	286.71	260.18	245.94	261.95	285.18	580.03	262.93	508.25
Indonesia (27)	37.47	0.9	34.12	32.48	34.42	247.09	−0.9	2.86	37.11	33.68	31.84	33.91	249.31	254.90	27.26	225.09
Ireland (16)	527.37	−0.7	480.30	457.11	484.51	521.79	−0.2	1.86	531.08	481.95	455.57	485.22	522.63	580.44	336.68	348.65
Italy (54)	173.75	1.8	158.25	150.61	159.64	226.19	2.4	1.24	170.68	154.89	146.41	155.94	220.91	177.15	86.93	91.15
Japan (480)	93.25	−1.4	84.93	80.83	85.67	80.83	−0.4	0.98	94.61	85.85	81.15	86.44	81.15	141.12	88.52	132.14
Malaysia (107)	162.08	−2.0	147.62	140.49	148.91	238.30	−1.4	2.71	165.42	150.11	141.90	151.13	241.79	541.84	113.56	531.03
Mexico (29)	1508.73	−0.6	1374.08	1307.74	1386.14	14237.45	−0.8	1.71	1518.39	1377.92	1302.49	1387.27	14351.00	1901.98	1405.17	1437.55
Netherlands (19)	532.74	1.5	485.19	461.77	489.45	484.25	2.0	1.91	525.08	476.50	450.41	479.73	474.63	532.74	369.56	377.65
New Zealand (14)	68.29	−0.7	62.19	59.19	62.74	68.38	0.3	4.78	68.74	62.38	58.96	62.80	68.14	98.47	67.95	87.88
Norway (36)	326.77	−1.4	297.60	283.24	300.22	330.68	−0.6	1.90	331.38	300.72	284.26	302.76	333.24	374.64	281.62	312.98
Philippines (22)	94.11	−0.6	85.71	81.57	86.46	181.03	−0.7	1.15	94.68	85.92	81.22	86.51	182.37	173.10	57.54	158.76
Portugal (18)	293.80	−0.5	267.58	254.66	269.93	364.02	0.1	1.05	295.21	267.90	253.24	269.72	363.61	299.39	276.07	–
Singapore (42)	183.15	−1.8	166.81	158.75	168.27	139.16	−1.0	2.18	186.49	169.24	159.97	170.39	140.56	401.75	144.01	389.13
South Africa (43)	303.25	−3.2	276.19	262.85	278.61	340.79	−2.2	2.65	313.30	284.32	268.75	286.25	348.48	364.24	227.66	354.57
Spain (31)	398.54	1.7	362.97	345.45	366.15	453.23	2.2	1.69	391.91	355.65	336.18	358.07	443.35	398.54	236.28	254.83
Sweden (49)	615.21	1.1	560.30	533.25	565.22	703.04	1.5	1.66	608.67	552.36	522.12	556.11	692.84	615.21	439.98	467.61
Switzerland (30)	411.13	0.6	374.43	356.36	377.72	375.39	1.3	1.07	408.68	370.87	350.57	373.39	370.55	411.13	285.85	297.42
Thailand (38)	22.00	−0.1	20.04	19.07	20.21	33.52	−0.3	8.17	22.03	19.99	18.90	20.13	33.62	69.09	13.10	64.23
United Kingdom (207)	382.47	−0.4	348.34	331.52	351.39	348.34	0.0	2.83	383.85	348.34	329.27	350.70	348.34	401.84	293.10	299.76
USA (634)	452.95	0.0	412.52	392.61	416.14	452.95	0.0	1.42	452.95	411.05	388.54	413.84	452.95	462.18	340.47	342.72
Americas (809)	409.93	0.0	373.34	355.32	376.62	346.50	0.0	1.43	409.89	371.97	351.61	374.50	346.48	418.95	311.99	313.75
Europe (747)	365.70	0.4	333.06	316.98	335.98	344.66	0.9	1.95	364.29	330.58	312.49	332.83	341.63	365.70	256.75	264.28
Eurobloc (352)	106.16	0.8	106.68	109.41	105.44	105.48	1.3	1.61	105.36	107.45	107.47	104.07	104.11	106.16	100.00	–
Nordic (149)	533.19	0.5	485.60	462.16	489.86	534.20	1.1	1.66	529.90	480.88	454.55	484.14	528.49	536.56	386.48	401.48
Pacific Basin (868)	101.47	−1.3	92.41	87.95	93.22	88.31	−0.3	1.69	102.79	93.28	88.17	93.91	88.62	158.99	95.32	150.31
Euro-Pacific (1615)	211.61	−0.1	192.72	183.42	194.41	184.95	0.5	1.88	211.79	192.20	181.68	193.50	183.96	216.04	172.03	197.85
North America (754)	440.01	0.0	400.73	381.39	404.25	440.10	0.0	1.42	439.86	399.17	377.31	401.88	439.97	448.61	332.46	334.52
Europe Ex. UK (540)	344.60	0.7	313.85	298.70	316.60	332.16	1.3	1.53	342.06	310.42	293.42	312.52	327.86	344.60	230.16	238.96
Europe Ex. Eurobloc (395)	99.48	0.0	101.82	102.53	98.80	100.77	0.4	2.30	99.47	101.45	101.46	98.25	100.38	100.97	96.35	–
Europe Ex. UK Ex. Eurobloc (188)	103.93	0.7	106.37	107.11	103.22	103.17	1.3	1.29	103.21	105.25	105.27	101.94	101.65	103.93	98.32	–
Pacific Ex. Japan (388)	178.53	−0.7	162.60	154.75	164.03	183.02	−0.2	4.27	179.87	163.23	154.29	164.34	183.38	318.98	161.31	307.05
World Ex. Eurobloc (2115)	98.39	−0.2	89.61	85.28	90.39	99.14	0.0	1.65	98.60	89.48	84.58	90.08	99.12	100.18	97.54	–
World Ex. US (1833)	215.05	−0.1	195.86	186.40	197.57	192.08	0.5	1.87	215.29	195.37	184.68	196.70	191.18	220.18	175.30	201.21
World Ex. UK (2260)	283.07	0.0	257.81	245.36	260.07	259.19	0.3	1.50	283.12	256.93	242.87	258.68	258.53	287.02	234.24	241.01
World Ex. Japan (1987)	390.00	0.1	355.19	338.05	358.31	383.25	0.3	1.71	389.62	353.57	334.21	355.97	382.10	394.39	301.66	304.62
The World Index (2467)	291.51	−0.1	265.50	252.68	267.83	267.26	0.2	1.64	291.67	264.69	250.20	266.49	266.64	296.57	241.30	246.06

 PLEASE NOTE: Amendments to indices 25/5/98 & 22/5/98 applied to Thailand, related regional indices and The World Index. CONSTITUENT CHANGES WITH EFFECT 27/5/98: Additions: Fedsure Limited (Large Cap) (South Africa). Deletions: First National Bank and Southern Life Association (both South Africa). Latest prices were unavailable for this edition. Markets closed 25/5/98: United Kingdom and USA.

Emerging markets: IFC Investable indices

4 pm close May 26

NEW YORK STOCK EXCHANGE PRICES

- A -

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

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- V -

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- W -

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- X - Y - Z -

[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

§-new yearly low. P/E price-earnings ratio. vol- volume. ¢-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. # Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	May 22	May 21	May 20	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9114.44	9132.37	9171.48	9211.84 (13/5)	7580.42 (9/1)	9211.84 (13/5/98)	41.22 (8/7/32)
Home Bonds	104.75	104.82	104.85	105.48 (15/1)	104.42 (11/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3380.59	3381.87	3398.75	3686.02 (16/4)	3194.36 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	280.06	280.26	281.29	291.18 (2/4)	262.66 (9/1)	291.18 (2/4/98)	16.53 (8/7/32)

DJ Ind. Day's high 9208.35 (9248.96) Low 9040.70 (9058.64) (Theoretical)
Day's high 9164.86 (9202.37) Low 9077.32 (9104.97) (Actual)

Standard and Poors	May 22	May 21	May 20	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1110.47	1114.64	1119.06	1130.54 (22/4)	927.69 (9/1)	1130.54 (22/4/98)	4.40 (1/6/32)
Industrials‡	1294.82	1299.52	1305.24	1311.46 (22/4)	1077.40 (9/1)	1311.46 (22/4/98)	3.52 (30/6/32)
Financial‡	135.03	135.68	135.89	140.63 (14/4)	110.65 (9/1)	140.63 (14/4/98)	7.13 (4/9/74)
Others							
NYSE Comp.	574.78	576.90	578.63	585.62 (22/4)	487.47 (9/1)	585.62 (22/4/98)	4.64 (25/4/42)
Amex Comp	730.57	732.36	732.22	753.67 (22/4)	646.41 (12/1)	753.67 (22/4/98)	524.20 (16/7/96)
NASDAQ Cmp	1805.00	1820.99	1831.75	1917.61 (22/4)	1503.22 (9/1)	1917.61 (22/4/98)	54.87 (3/10/74)
Russell 2000	462.89	467.19	468.54	491.41 (21/4)	410.89 (12/1)	491.41 (21/4/98)	123.36 (7/12/93)

■ RATIOS

	May 15	May 8	May 1	Year ago
Dow Jones Ind. Div. Yield	1.56	1.56	1.54	1.71

	May 20	May 13	May 6	Year ago
S & P Ind. Div. yield	1.30	1.30	1.33	1.67
S & P Ind. P/E ratio	30.98	31.08	30.86	23.39

US DATA

■ MARKET ACTIVITY

● Volume (million)	May 22	May 21	May 20
NYSE	444.730	551.970	587.230
Amex	20.906	26.498	28.508
NASDAQ	644.269	682.163	683.608

NYSE	May 22	May 21	May 20
Issues Traded	3,481	3,506	3,506
Rises	1,082	1,318	1,473
Falls	1,762	1,561	1,446
Unchanged	637	627	587
New Highs	47	75	69
New Lows	62	63	66

■ NYSE TRADING ACTIVITY — Volume : 444,730,000

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Compaq	10,533,800	27¼	−⅝
Pfizer	6,914,200	105⅞	−3⅝
Chryslr	4,826,800	53⅞	+⅞
Telmex	3,956,600	49⅞	−⅜
PhMorr	3,500,300	37⅝	−⅛
Cendnt	3,311,400	22⅛	
Analog	3,085,000	25⅛	−1
SBC Cm	2,899,300	39	−⅛
Seagte	2,870,300	22⅛	−1⅛
BayNtwks	2,849,200	26⅞	+½

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
USSurg	39¼	+2⅞	+8.3
JLG Ind	18⅞	+1	+5.9
CKE	34⅞	+1⅞	+5.6
Am Wotr 5%	22½	+1	+4.7
Downs			
DrairBz	94⅞	−15⅞	−13.8
Best Buy	63⅞	−3⅛	−5.0
Seagte	22⅛	−1⅛	−4.7
Ambder	19⅞	−⅞	−4.5

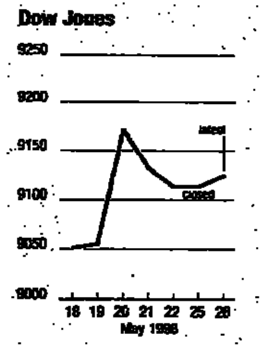
■ NASDAQ TRADING ACTIVITY — Volume :644,269,000

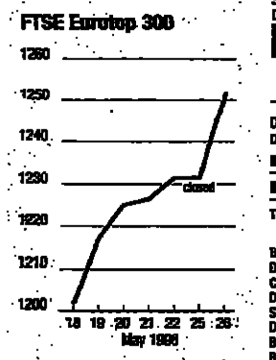
■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
DellCmp	22,794,200	85¾	−1⅞
WrldCm	12,504,700	45⅛	+⅞
Mgnstcs	11,712,100	29⅛	−18⅛
Amgen Inc	11,116,000	65⅞	+3¾
SmrtMod	11,072,100	13⅛	−7⅛
Intel	9,774,700	74⅞	+⅞
Micsft	8,998,100	86⅞	−⅞
Peoplsoft	7,113,600	42⅛	−2⅛
CiscoSys	6,382,000	76⅛	−⅛
Intuit	6,338,100	48⅞	+1⅞

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
USA Dtg	13½	+1⅛	+9.1
Cygnus	11⅞	+⅞	+8.1
Energis	63⅞	+4⅛	+7.9
Sal3ComA	10⅛	+⅛	+7.5
Downs			
Mgnstcs	29⅛	−18⅛	−38.9
SmrtMod	13⅞	−7⅛	−35.8
Encore	32⅛	−6	−15.7
Vistana	19⅞	−2⅞	−12.4





JAPAN

	May 26	May 25	May 22	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	15844.82	15783.12	15801.66	17264.34	14664.44	38915.9	85.25

Day's high: 15942.18. Day's low: 15788.91

■ TOKYO TRADING ACTIVITY — Volume : 278,000,000

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Kawald Steel	7,239,000	223	+2
Np Steel Cp	5,937,000	237	−2
Nissan Mtr	5,918,000	432	−10
Ishikwa Sels	5,778,000	258	+5
Bk Tk-Mitshi	5,405,000	1485	+10
Stomo Mtl Ind	5,109,000	219	+1
Yuasa Corp	4,910,000	217	+26
Mitsui M&Sm	4,046,000	555	+14
Sakura Bank	3,848,000	436	−4
Daiwa Bank	3,049,000	293	+6

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Fuso Pharm	498	+93	+23
Stomo Lt Mtl	128	+19	+17.4
Yuasa Corp	217	+26	+13.6
Toyo Chem	500	+50	+11.1
Downs			
Totetsu Kgy	256	−32	−11.2
Tohto Suisan	186	−18	−8.8
Ishii Irn Wk	222	−20	−8.3
Tetra	225	−20	−8.2

FRANCE

	May 26	May 25	May 22	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	4115.88	4108.71	4049.78	4115.88	2862.54	4115.88	934.61

Day's high: 4146.79 Day's low: 4108.12

■ PARIS TRADING ACTIVITY — Volume : 742,811,350

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Usinor	3,550,264	106.5	+3.6
Rhn-Plnc A	2,436,921	334.7	+1.2
Euro Disney	1,848,589	10.5	−0.1
France Tel	978,118	349	
Total B	952,231	763	+9
Axa-UAP	873,118	697	−9
Michelin B	814,539	369	+1.5
Alcatel Acl	567,689	1288	−4
Bq Natl Paris	531,392	574	−3
Metrologie	456,935	19.7	

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Manutan	586	+66	+12.7
Silec	352.9	+39.3	+12.5
Docros Srv	38.7	+3.7	+10.6
Sip Recyclage	777	+72	+10.2
Downs			
Bq Petrofigaz	30	−13.95	−31.6
Stpho Kclan	75	−7	−8.5
Chamber Fr-D	0.54	−0.05	−8.5
Moncey (Fin)	2901	−249	−7.9

GERMANY

	May 26	May 25	May 22	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	5644.29	5575.16	5564.21	5644.29	4087.28	5644.29	931.18

Day's high: 5664.84. Day's low: 5621.23

■ FRANKFURT TRADING ACTIVITY — Volume . 13,736,878

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
B Hypo 9¾%	1,128,000	351.5	+8.5
Daimler-Benz	1,025,976	201	+5.4
Commerzbk	575,258	72.9	+1.4
Deutsche Tel	545,730	48.85	+0.35
Siemens	541,499	122.2	−1.1
Dresdner Bk	534,121	104.2	+1.25
Bayer	477,860	82.15	+0.65
BASF	419,765	81.05	−0.35
Hoechst	377,831	81.35	+1.4
Veba	371,384	122.75	+0.75

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Ex-Cell-O	246.5	+21.5	+9.6
Lindner	34	+2.5	+7.9
Puma	49.65	+3.65	+7.9
Pixtl	68	+4	+6.2
Technotrans	173	+10	+6.1
Downs			
VBH	36.8	−2.4	−6.2
Fielmann Pf	54.3	−3.2	−5.6
SG NV Pf	31	−1.5	−4.6

UK

	May 26	May 25	May 22	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5970.7	(c)	5955.6	6105.8	5068.8	6105.8	986.9

Day's high 6042.6. Day's low 5955.6

■ LONDON TRADING ACTIVITY — Volume : 693,600,000

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
British Steel	11,096,520	163½	+2½
BP	10,162,080	929	+16
Centrica	10,050,840	99	−1
Ionica	9,145,823	24½	−11½
Reed Intl	8,683,953	580	−1
Vodafone	8,054,511	676	+23
Hillsdown	7,654,687	196½	+4
CLM Ins	7,485,848	161½	+5
Thomson Trvl	7,332,313	193½	
Lloyds TSB	7,281,173	899½	+6

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Tams J.H	34½	+9	+35.3
Charlton Athl	80	+15	+23.1
Unvsl Salvage	105	+19	+21.8
AFA Systems	131½	+22	+20.1
Cornno	255	+42½	+20
Downs			
Ionica	24½	−11½	−31.9
Powerscreen	133½	−36	−21.2
Sunderland	415	−97½	−19

INDEX FUTURES

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Jun	1113.60	1119.00	+5.00	1119.70	1113.50	68,213	338,949
Sep	−	1126.20	−	−	1123.20	5,265	30,135
■ Nikkei 225							
Jun	15750.0	15880.0	+80.0	15920.0	15730.0	16,703	203,558
Sep	15780.0	15890.0	+90.0	15910.0	15730.0	634	15,390
■ CAC-40 (200 x index)							
May	4111.0	4111.0	+18.0	4113.0	4105.5	341	34,024
Jun	4090.0	4090.5	+15.0	4091.5	4088.0	24	23,692
■ DAX							
Jun	5614.0	5642.5	+48.0	5681.5	5608.5	22,947	123,137
Sep	5661.0	5690.5	+53.0	5726.0	5661.0	153	18,260
■ OMX							
Jun	800.00	789.00	−2.00	800.00	787.75	12,640	130,317
Jul	795.50	793.00	−	795.50	793.00	23	63
■ SOFFEX							
Jun	7701.0	7710.0	+50.0	7748.0	7685.0	3,164	10,508
Jul	7715.0	7713.0	+114.0	7726.0	7715.0	18	2,692

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

Country	Index	May 26	May 25	May 22	1998 High	1998 Low	Yield	P/E
Argentina	General	20724.88	(c)	21209.05	23495.47 23/3	18237.40 2/1	3.09	18.3
Australia	All Ordinaries	2734.7	2727.8	2725.9	2881.40 16/4	2542.40 12/1	3.38	19.9
	All Mining	638.1	637.3	637.8	713.10 23/4	552.20 13/1		
Prices exhibited only minor movements and volumes were thin at A$508m.								
Austria	Credit Aktien	(u)	579.64	582.69	582.89 22/5	437.44 13/1	1.47	16.7
Hungary	Bux	7407.50	7274.34	[illegible]	[illegible]	7274.34 25/5	na	na
Ended higher after clawing back part of Monday's steep post-election loss.								
India	BSE Sens.	3875.06	3908.11	[illegible]	[illegible]	3209.65 29/1		
	Dolli 500	749.96	753.74	[illegible]	[illegible]	594.38 29/1	na	na
End of account considerations sent shares lower.								
Indonesia	Jakarta Comp.	434.08	439.55	[illegible]	[illegible]	342.97 9/1	2.28	17
Portugal	BVL 30	5833.93	5853.61	5836.34	6176.89 22/4	3679.27 2/1	1.6	43.9
	PSI 20	13386.32	13403.53	13362.50	14292.99 22/4	9031.84 2/1		
Russia	RTS	209.33	213.44	225.41	411.61 5/1	209.33 26/5	na	na
Losses pared as foreign investors went bargain-hunting.								
Singapore	SES All-S'pore	350.48	351.79	353.80	437.68 19/3	324.82 12/1	2.59	14.4
[illegible]								

[illegible]

THE NASDAQ STOCK MARKET

4 pm close May 26

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THE NASDAQ STOCK MARKET

[illegible]

AMEX PRICES

4 pm close May 26

[illegible]

EASDAQ

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STOCK MARKETS

New York fall fails to halt European climb

WORLD OVERVIEW

New York and London showed little sign of bringing a halt to the bull market as trading started there after the holiday weekend, *writes Philip Coggan.*

The Dow Jones Industrial Average opened strongly and, although it faltered later in the New York morning, it was not enough to disturb European bourses. Paris and Frankfurt again notched up all-time closing highs. Brussels was another market to reach a peak, thanks to the surprise bid from Dutch bank ABN-Amro for Generale Bank. Generale had previously been bid for by the Belgian-Dutch group Fortis.

The dollar's strength – it reached a seven-year high against the Japanese yen – helped support European equities and the US Treasury bond market.

Mark Howdle, the Salomon Smith Barney strategist, says: "European equities still look attractive compared with bonds and cash, especially in our dividend discount model. We are most positive on Italy, Spain and France, and less so on Germany, the Netherlands, Sweden and Switzerland."

Overall, he forecasts an 8 per cent gain for Europe over the next 12 months.

Another European bull is Rory Powe, who manages Invesco's European Growth fund. He says that investors should not make the same mistake as they did in the US five years ago, when Wall Street was seen as expensive.

"They underestimated the structural improvement in profits," he says.

Similar changes are taking place in Europe, he believes, with companies improving their allocation of cashflow, their use of information technology and their purchasing functions, among other things.

"Just as the US was a five-year improvement story, the European bull case is not a short-term argument," says Mr Powe, although adding that investors will have to be highly selective when picking stocks.

While Asian markets were fairly calm, Korea was the region's worst casualty, falling 6 per cent to another 11-year low, ahead of a planned nationwide two-day strike by the Korean Confederation of Trade Unions.

The lifting of the ceiling on foreign ownership failed to provide any support for the market, as investors fretted about the strikes, the competitive threat from the weakness of the yen, the danger of further bankruptcies, and the worsening economy.

The Korea Institute of Finance expects the country's gross domestic product to fall by 3.1 per cent this year and unemployment to rise sharply.

Dow declines in spite of bond gains

AMERICAS

US shares moved lower in spite of a dollar-led rally for the bond market, *writes John Labate in New York.*

By early afternoon the Dow Jones Industrial Average had lost 19.18 to 9,095.26 while the broader Standard & Poor's 500 Index fell 3.73 to 1,106.74.

Technology and small company stocks lost ground. The Nasdaq composite was down 3.79 to 1801.31. The Russell 2000 index of small cap stocks gave up 2.36 or 0.51 per cent to 460.63.

In a further sign of the general market's weakness declining shares topped advancing ones by a margin of 17 to 11 on the New York Stock Exchange.

The US Treasury market, however, experienced a surge in prices as the dollar touched a seven-year high against the Japanese yen. Economic data also helped to send bond prices higher with both existing home sales and consumer confidence levels down.

By early afternoon, the 30-year Treasury bond, the benchmark for long-term interest rates, had gained $1 to $104 sending the yield lower to 5.839 per cent.

Leading the Dow lower were Walt Disney which came off $3⅛ to $113⅛, a drop of 2.7 per cent. Major cyclical shares were also weaker. Union Carbide fell $1⅝ to $51⅝ and Caterpillar lost $⅞ to $57⅝.

Motor stocks broke the weakening trend. Ford Motor surged $1⅞ to $52 13/16 while Chrysler climbed $1 to $54⅞. General Motors was unchanged at $76.

Microsoft slipped $1 to $84 3/16 on a report that it could face new charges in its antitrust lawsuits with government regulators.

Other major technology stocks were mixed. Dell Computer gained $1 1/16 to $86 13/16 while Hewlett-Packard gained $1 to $66⅝. Semiconductor shares were also mixed sending the Philadelphia stock exchange's chip index down by less than a point to 270.80.

TORONTO moved lower with heavy selling of resource stocks undermining what was seen as a fairly solid start to the banking sector's results season.

At the noon calculation, the 300 composite index was 36.95 lower at 7,731.20.

The banks' second-quarter results season began with figures from three of the big six banks. These were seen as top of the range but the investor response was mixed.

Bank of Nova Scotia came off 25 cents to C$39.80, but Royal Bank of Canada gained 15 cents to C$89.25 and Bank of Montreal added 80 cents at C$82.

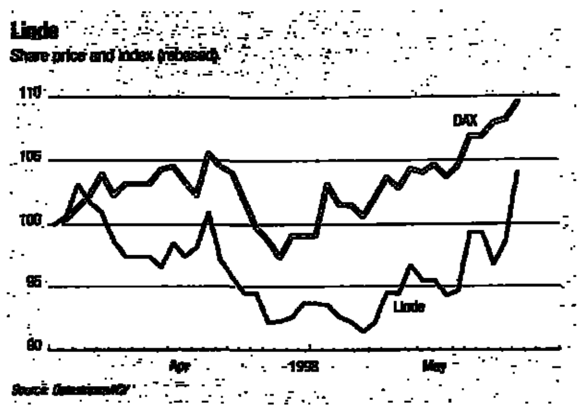
The precious and base metals sectors fell 2.1 per cent and 1.5 per cent respectively. Gold leaders were among the heaviest casualties. Barrick tumbled C$1.20 to C$29.05 while Placer Dome came off 90 cents to C$18.80.

Seagram, the drinks and entertainments giant that is linking up with PolyGram of the Netherlands, dipped 35 cents to C$65.55.

Dax hits four records in a row

EUROPE

Upbeat results combined with another good day for the dollar to push **FRANKFURT** to its fourth successive record high.



Gains were pared late in the day as Wall Street turned lower, but at the close of electronic trading the Xetra Dax index was still 47.43 higher at 5,639.89.

Cyclicals led the performance charts. Linde rose DM79 or 6 per cent to DM1,384 on strong four-month figures and the Preussag share price told a similar story, adding DM17 at DM657.

Mannesmann rose DM55 to DM1,636 as investors anticipated the stock split and capital increase planned for this summer.

Retailer Metro, which announced lower profits but higher earnings per share, improved 40 pfg at DM112.20. Among banks, solid results lifted Hypo DM3.10 to DM116.40 and Vereinsbank DM5.70 to DM158.80.

Positive broker comment got behind the motor sector, helping to mitigate a near 15 per cent decline in new German car registrations for April.

Lehman Brothers upgraded earnings estimates for Porsche and lifted its target price from DM4,500 to DM6,500. The shares rose DM275 to DM5,000. Volkswagen added DM35.50 to DM1,515 and BMW DM53.90 to DM1,854.

PARIS rose to another record high, although volume stayed modest and the CAC 40 index, up 7.17 at 4,115.88, ended more than 30 points below the best of the session.

Cement leader Lafarge and software group Cap Gemini led the upturn, rising FFr36 or 6.1 per cent to FFr630 and FFr36 to FFr839 respectively.

Pinault-Printemps gained FFr37 to FFr4,875 following news of the retailer's move into the telecoms business via the distribution of telephone cards.

Usinor continued to power forward, rising FFr3.60 to FFr106.50. A broker upgrade for UK rival British Steel helped sentiment, but the main drive looked to be the group's FFr4bn foray into the Brazilian special steels business. Among smaller caps, Société Générale d'Enterprise added FFr10.40 to FFr286.90 after an annual meeting forecast of sharp rise in dividend for 1998.

AMSTERDAM shares gave up earlier gains on profit-taking in spite of a stronger dollar and firmness in other European markets.

The AEX index, which hit a record high on Monday, fell 2.92 to 1,216.90. ABN Amro lost 70 cents to Fl 51.30 after it announced a Fl 24.5bn counter-bid for Belgium's Generale Bank, which has a tie-up agreement with Belgo-Dutch insurer, Fortis. Fortis Amove rose Fl 2.40 to Fl 126.90 while on the Brussels bourse Generale Bank gained 15 per cent.

Heineken gained Fl 1.60 to Fl 81.70 after it raised its stake in Polish brewer Zywiec.

MADRID fell on profit-taking and the general index closed down 0.32 at 902.46.

Argentaria gained Pta150 or 1.2 per cent to Pta13,060 on speculative buying ahead of its shareholders' meeting next month. Telefónica, which had been ahead during the day, fell on last-minute profit-taking and closed down Pta20 to Pta7,120.

Electric utility Endesa, which saw a rush of individual investors' bids at the start of its share offering, eased Pta40 to Pta3,750 on profit-taking.

Asturiana de Zinc, the mining group, fell Pta60 to Pta2,290. Profit-taking hit the shares after it gained ground following news of its bid for Australia's Western Metals.

Telepizza, the fast food chain, rose Pta45 or 3 per cent to Pta1,560. The shares have risen 42 per cent from the start of this month thanks to speculation that it could become a component stock of the Ibex-35 index. A stock split on May 18 and the launch of a new fast food chain have helped shares.

MILAN edged marginally higher led by banking stocks, with the Mibtel index closing up 93 or 0.4 per cent to 24,884.

Banca Nazionale del Lavoro, which rose L2,686 or 5.6 per cent to L51,000, was the top gainer of the day, on the final day of bids in its forthcoming privatisation. Other banks were also strong – Credito Italiano rose L77 to L10,384.

Olivetti was the most active issue of the day, closing down L92 at L2,660. Banca di Roma followed, declining L46 to L3,685.

Toro, the insurer, rose L890 to L33,322. Investors were encouraged by its announcement that it would increase its group premium income to L5,000bn this year from L4,187bn in 1997.

ZURICH rose 74.8 to 7,731.9 on the SMI index in good two-way volume, supported by a good day for bonds and the Swiss franc.

CS Group added SFr2.50 to SFr333 and Swiss Re SFr78 to SFr3,382 following the revival of an old story that the two were planning to merge. Among the drug heavyweights, Novartis gained SFr40 to SFr2,550.

Alusuisse stayed in demand on spin-off speculation. The shares advanced SFr8 to SFr1,998 for a two-day gain of almost 2 per cent.

MOSCOW continued to lose ground, but shares rallied towards the close on what observers described as cautious bargain-hunting by foreign investors. The RTS index ended 1.9 per cent lower at 209.33 in turnover of $59.4m.

Written and edited by Jeffrey Brown, Peter Hall, Emiko Terazono, and Paul Gregan

Asia weighs on Mexico

Weaker Asian markets sent **MEXICO CITY** lower as fears of a sell-off in emerging markets depressed sentiment.

The IPC index tumbled 99.99 or 2.2 per cent to 4,512.30 as the Mexican peso weakened. Fears that the slide of Korean shares, the political situation in Indonesia and the surge in Russian government bond yields would trigger a sell-off weighed on share prices.

Worries over the $65m of bad debts transferred from Mexican banks' balance sheets to the government's Fobaproa trust in 1994 also depressed shares.

SAO PAULO lost more than 3 per cent on Asian and Russian jitters and concerns over the government's ratings in opinion polls.

The Bovespa index fell 309 to 9,706 reflecting worries over a poll published over the weekend that indicated a rise in the number of people discontented with President Fernando Henrique Cardoso.

Telebrás, the index heavyweight, lost R$2.7 to R$122.50.

CARACAS moved steeply lower as worries about Asia and softer oil prices weighed heavily on investor sentiment. At midsession, the IBC index was down 206.66 or 3.2 per cent at 6,279.26.

Rate rise targets speculators

SOUTH AFRICA

Johannesburg was hit by a rise in interest rates as the central bank tried to defend the rand against speculative selling.

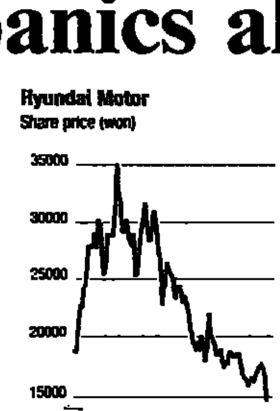
The all share index lost 116.3 or 1.5 per cent to 7,842.10 dragged down by a 1.8 per cent fall in interest-rate sensitive financials.

In a move against speculators who were selling the rand on rumours that the currency would be devalued, the South African Reserve Bank raised the daily money market repo rate by 2 percentage points to 18 per cent.

Seoul panics ahead of strike

ASIA PACIFIC

Swept by what brokers described as panic selling, **SEOUL** fell precipitously for the fourth day running. The composite index tumbled 19.91 or 6 per cent to 311.99 with 174 shares ending the session limit down.



Yen weakness and plans for a two-day strike at Hyundai Motor sparked the latest round of selling. It extends to almost 20 per cent the decline on the benchmark index since last Thursday when news of a shrinking economy first sent the bears into overdrive.

Yesterday, fallers outpaced risers 752 to 84. Hyundai Motor fell Won2,000 to Won14,800.

TOKYO gained ground, but failed to break through the 16,000 level on the Nikkei 225 Average in the absence of positive news, *writes Bethan Hutton in Tokyo.*

The benchmark index closed at 15,884.82, up 101.70, after trading between 15,788.91 and 15,942.16. The Topix index of all first-section stocks gained 5.51 to 1,232.22.

Volume remained low as domestic investors avoided trading on the last day for settlement this month, and foreign investors were also largely absent from the market for a second day after Monday's public holiday in New York and London. First-section turnover fell back to about 280m shares, from about 300m on Monday.

The yen's continuing weakness had mixed effects as some traders worried that it might prompt further selling by overseas investors, while others bought shares likely to benefit from a lower yen, such as exporters.

Bank shares recovered slightly from their recent falls after the release of bad loan data, but some banks were still heavily traded.

The banking sector rose 0.43 per cent. Bank of Tokyo-Mitsubishi firmed Y10 to Y1,485 and Daiwa Bank Y6 to Y293, but Sakura Bank fell Y4 to Y436, all in relatively high-volume trading.

Power utilities were higher after announcing generally good results over the past few days. Tokyo Electric Power gained Y20 to Y2,645. Kansai Electric Power Y20 to Y2,240, and Chubu Electric Power Y10 to Y2,015.

Mazda, the carmaker, lost ground in spite of announcing strong results and an optimistic profits forecast during the day. Mazda ended down Y4 at Y455, while other carmakers were mixed. Toyota gained Y20 to Y3,480 and Honda Y50 to Y4,660, while Nissan dropped Y10 to Y432.

In Osaka, the OSE index gained 52.56 to 16,618.67, in turnover of 9m shares.

JAKARTA lost ground as uncertainty over future reforms overshadowed the initial euphoria of Mr Suharto's resignation.

The composite index fell 5.50 or 1.3 per cent to 434.06 amid thin trading. Companies with links to Mr Suharto's family were sold off. Bimantara, the conglomerate run by the former president's son, fell Rp50 or 14 per cent to Rp300 while toll-road operator Citra Marga retreated Rp25 or 6 per cent to Rp400.

Astra declined Rp50 to Rp1,200 and Humpuss Intermoda Rp50 to Rp500.

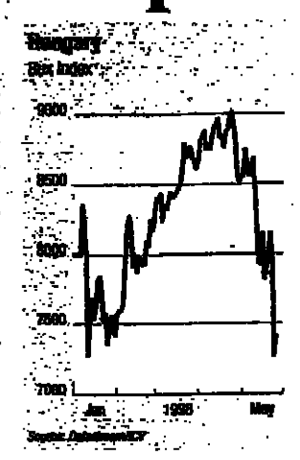
TAIWAN, which closed down 1.6 per cent, was hit by yen weakness. The benchmark index lost 135.70 to 8,178.39 led by a 3.5 per cent decline in electronics shares.

Reports of a possible slowing of sales at electronics companies' in the second quarter dampened sentiment, while overseas investors were seen profit-taking. Taiwan Semiconductor fell T$5.50 to T$132 while chip testing and packaging group ASE lost T$5.50 to T$86.50.

Traders said selling by foreign funds was also caused by a new anti-speculative trading restriction laid down by the central bank. Financial authorities have banned banks from conducting foreign exchange margin trading.

EMERGING MARKET FOCUS

Job for Jarai calms Budapest



Some calm returned to Budapest yesterday with the Bux index, which tumbled 8.7 per cent on Monday, rallying 1.8 per cent to 7,408.

Investors were influenced by the news that Fidesz, the centre-right party which emerged as the strongest in Sunday's general election, is to offer the post of finance minster to Zsigmond Jarai, chairman of the Budapest stock exchange and chief executive of ABN Amro (Magyar) Bank.

Mr Jarai, however, denied there had been any official offer. "It's just rumours," he said, declining to comment on whether he would accept the post if offered.

Monday's slump for share prices left the Bux index almost 20 per cent off April's record high as domestic investors viewed the post-election uncertainty.

Fidesz won the most seats in parliament, but needs a coalition partner for a workable government. The choice lies between the populist right-wing Smallholders or a grand coalition with the outgoing Socialists.

However Viktor Orban, the Fidesz leader, appeared on Sunday evening to rule out any deal with the Socialists – leaving the Smallholders, led by the mercurial Jozsef Torgyan, as the only acceptable alternative.

Monday's fall in share prices was an over-reaction to Mr Orban's rejection of a grand coalition, said Tamas Szalai, equity analyst with Concorde Securities, who predicted continued short-term uncertainty.

The positive news that Mr Jarai was likely to be offered the finance portfolio was tempered by the Fidesz plan to establish an umbrella "super-economics" ministry led by Gyorgy Matolcsy, the architect of Fidesz' economic programme, Mr Szalai said.

The relationship between Mr Jarai, a prudent monetarist, and Mr Matolcsy, whose supply side plans to stimulate the economy cause concern among the financial community, would be critical, says Mr Szalai.

"The Fidesz programme, which calls for cuts in taxes to stimulate growth, with the loss in government revenues made up by taxpayers becoming more honest, is fine if you believe it. But that's a big if," he adds.

If the influence of Mr Matolcsy and the prospect of a deterioration in the budget deficit causes concern among investment bankers, the inclusion of the Smallholders in a future coalition gives them palpitations.

"They don't have a real economic policy, just wishes and dreams. How to handle the Smallholders is a real problem," was one of the more restrained comments to be heard yesterday.

The Smallholders, who have demanded an end to the crawling peg devaluation rate and increased spending on agriculture and the countryside, will have to be contained by Fidesz, says Mr Norbert Toth, head of research at ING Baring.

"Fidesz doesn't have any substantial alternatives to present economic policy if it wishes to meet European Union membership criteria," says Mr Toth. "I think Mr Orban understands this well enough."

Kester Eddy